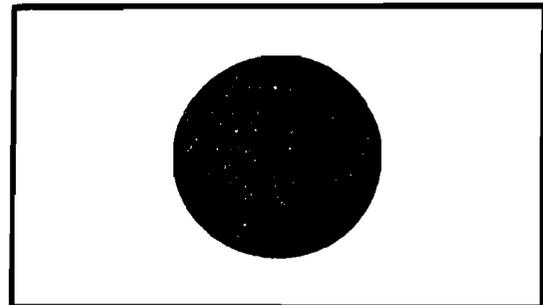
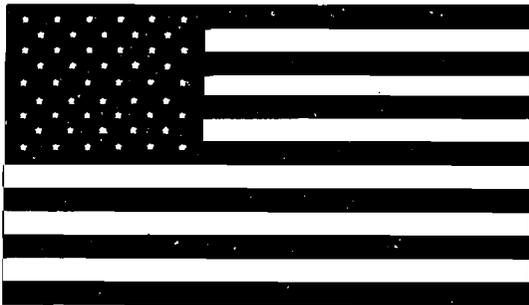


SECOND ANNUAL REPORT
of the
U.S. - JAPAN WORKING GROUP
on the
STRUCTURAL IMPEDIMENTS INITIATIVE



July 30, 1992

The Honorable George Bush
President of the
United States of America
Washington, D.C.

His Excellency
Kiichi Miyazawa
Prime Minister of Japan
Tokyo

Pursuant to the objective of reinvigorating the SII (Structural Impediments Initiative) through the follow-up mechanisms provided for in your Plan of Action (Part II) of January 1992, the U.S.-Japan Working Group on the SII presents the attached Second Annual Report.

We believe that the attached report contains strengthened policy initiatives including new commitments to address the aspects of business environment and progress to date regarding the implementation of the measures of both governments listed in the Joint Report that should contribute to the reduction of payments imbalances. These measures should also lead to more efficient, competitive, and open markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States.

During the course of the discussions toward the attached Second Annual Report, the Working Group reaffirmed its determination to advance structural reforms of both countries, the goals of the SII.

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SECOND ANNUAL REPORT
of the
U.S.-JAPAN WORKING GROUP
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STRUCTURAL IMPEDIMENTS INITIATIVE (SII)
Tokyo, Japan
July 29, 1992

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Second Annual Report of SII Follow-up
Joint Press Release

1. The U.S.-Japan Working Group on the Structural Impediments Initiative (SII) provides the attached Second Annual report. This report contains strengthened policy initiatives including new commitments to address the aspects of business environment of both countries that might impede structural reform including market access, foreign investments, and competitiveness. The report also summarizes the actions taken since May 1991 in fulfillment of the commitments described in the June 1990 Joint Report and the May 1991 First Annual Report. This report provides continued evidence of the efforts made by both parties at this stage to meet the objectives of the SII follow-up process.

2. The SII, which is the initiative of the President of the United States and the Prime Minister of Japan, represents a unique and extensive endeavor between the United States and Japan. It attests to the closeness of the ties between our two countries, and the importance and extent of the interrelationship of our two economies.

3. Both governments reaffirm their strong commitment to solve structural problems in both countries that stand as impediments to trade and to balance of payments adjustment; such actions should also lead to the removal of impediments to more efficient, open and competitive markets. They remain firmly committed to make efforts to reduce their external imbalances. The Working Group recognizes that success will depend on continued progress in implementing structural reforms and a strong and serious follow-up process.

4. Both the Government of Japan and the United States Government welcome the steps taken over the past year towards addressing structural problems in their countries. The Working Group notes that significant progress has been made in a number of areas. While acknowledging these positive measures already underway, both the Japanese and the U.S. sides of the Working Group stressed that further endeavors by both governments in their respective areas of SII are needed to ensure that the goals of the SII are achieved. Both governments are determined to strengthen their efforts towards this end.

5. In addition to undertaking the new commitments outlined in the Second Annual Report, the Working Group reaffirmed the policy commitments contained in the Joint Report and the First Annual Report. The full range of actions in these three reports, if fully implemented and

followed up, should contribute to a reduction in both countries' external payments imbalances and lead to more efficient, open and competitive markets. These structural reforms should also promote economic growth and enhance the quality of life in both Japan and the United States. The two governments believe that these actions will continue to benefit the world economy.

6. The Working Group reaffirmed its determination to take needed steps to achieve the goals of the SII and ensure continued momentum of the follow-up process. The SII Working Group remains committed to the follow-up procedures embodied in the introduction to the Joint Report.

I. Saving and Investment Patterns

1. Reduction in the Current Account Surplus

Japan's current account surplus, as a ratio to GNP, has been declining from 4 percent plus in 1986, to 2 percent plus recently, as a result of factors such as the appreciation of the yen and structural changes in exports and imports reflecting increased market access and transfer of production capacities abroad by Japanese manufacturers. The current account surpluses in 1991 and in 1992 to date were larger than those in 1989 and 1990, owing to various factors including the developments in gold imports for financial investment, in exchange rates and commodity prices and in relative economic conditions of Japan and its trading partners. The Government of Japan expects that steady and continuous implementation of the actions contained in the Joint Report will basically contribute to a reduction in the current account surplus and strongly reaffirms its commitment to work actively toward that end.

2. Positive measures regarding Public Investment in the FY 1992 Budget

(1) Public Investment

(i) The Government of Japan launched the "Basic Plan for Public Investment", building on the principle to boost domestic investment, improve social overhead capital and to reduce the shortage of investment relative to savings and to the size of the Japanese economy, as mentioned in the Joint Report. The Plan includes an aggregate investment expenditure of approximately ¥430 trillion for the decade from FY 1991 to FY 2000. Firm implementation of public investment over the medium term based on the Plan, while giving due consideration to the balanced development of the economy, is expected to provide a base for sustainable non-inflationary growth led by domestic demand, and this would, along with other measures, facilitate a further reduction in the current account surplus. The yearly implementation of the Plan should be decided flexibly considering the prevailing economic and fiscal situation, paying due attention to avoiding inflation and overheat of the economy as well.

(ii) The Government of Japan has made the utmost effort in the FY 1992 budget and other programs to ensure sufficient amounts of public investment, notwithstanding the difficult fiscal situation and the large national debt outstanding. Specifically, in the FY 1992 budget, Public Works Expenditure in the general expenditure of general account has been increased by 5.3%. Furthermore, the allocation of the Fiscal Investment and Loan Program Funds to the public works executing agencies has been increased by 10.8%. In addition, with regard to the public investment efforts being carried out at the local government level, the Government of Japan envisages a 11.5% increase in local governments' public expenditure for projects that are entirely self-financed under the Local Public Finance Program.

(iii) As a result, Public Gross Fixed Capital Formation (Ig) in FY 1992 is forecasted to reach approximately ¥31.2 trillion. Taking into account the possible addition of disaster relief expenditures (the simple average of estimated supplementary disaster relief expenditures corresponding to the Ig in the past ten years, ¥0.8 trillion), this represents an increase of approximately 6.0%.

In sum, the Government of Japan has made the utmost effort in the FY 1992 budget and other programs to ensure sufficient amounts of public investment, providing a basis for the firm implementation of the "Basic Plan for Public Investment".

To achieve further progress in FY 1992 toward fulfillment of the ten year plan and in order to promote non-inflationary sustainable growth led by domestic demand, the Government of Japan has taken a number of measures relating to public investment. In addition to public investment actions taken in connection with the original FY 1992 budget, on March 31 the Government decided to implement the Package of Economic Measures which are expected to have positive effects on public and private investment. These measures would accelerate the implementation of public works programs in the FY 1992 budget, facilitate housing investment, and support small and medium-sized enterprises. Furthermore, on July 1, Prime Minister Miyazawa announced that if these various measures do not have sufficient effect, the Government will examine the situation and undertake every possible means,

including necessary substantial additional fiscal measures. On July 24, the Government of Japan and the Liberal Democratic Party agreed that the contents of the additional measures will be formulated around the middle of September, examining the situation including the effects of the Package of Economic Measures announced in March.

(iv) Also in FY 1992, the Government of Japan fully expects the four former public enterprises' (JR, NTT, JT and EPD) investment plans to provide for an increase of 7.6% to ¥2.9 trillion, compared with the expectation of approximately ¥25 trillion in aggregate investments by such entities for the decade from FY 1991 to FY 2000.

(v) With regard to the public investment in FY 1993, the Government will focus on the continued progress toward fulfillment of the objectives of the Basic Plan for Public Investment. This would, along with other measures, facilitate the adjustment in the current account.

(2) Sectoral Long-term Plans for Social Overhead Capital

(i) All of the eight sectoral long-term plans (Five-Year Plans) which expired at the end of FY 1990 were renewed by the ministries concerned and decided by the Cabinet by the fall of last year and have been firmly implemented to attain the specific targets indicated in the Joint Report of the SII. Priority has been given to improvement of infrastructure which will facilitate importation of goods and services.

(ii) Regarding the Erosion and Land Control Five-Year Plan and the Erosion and Flood Control Five-Year Plan which expired at the end of FY 1991, the size for each of new plans was determined. The cumulative expenditures for these new plans are 1.4 times that for previous plans. In addition, as to forestry conservation category, the size for the new long-term plan, introduced in FY 1992, was determined.

(iii) It is envisaged that larger plans for certain other key areas, such as roads, will also be considered as the current plans expire.

(3) Allocation of Public Investment

In the allocation of Public Works Expenditure in the FY 1992 budget, the greatest possible attention was paid

to those categories closely linked to the improvement of the quality of life by taking measures including the establishment of the Set Aside for Livelihood Improvement Related Expenditure.

As a result, expenditures in public sanitation, housing, sewers, parks, etc. are ensured to increase in terms of the percentage growth rate compared to the previous year more than General Public Works Expenditure.

In allocating Public Works Expenditure among various types of social overhead capital, the Government of Japan will continuously put emphasis upon the categories closely linked to the improvement of the quality of life.

(4) Allocation of the Fiscal Investment and Loan Program Funds

Pursuing economic policies to assure sustainable economic growth with price stability, the FY 1992 Fiscal Investment and Loan Program (FILP) has put stress on making more effective and selective use of the funds to improve social overhead capital, according to the principle of enhancement of the quality of the people's life, as the FY 1991 program did.

In this context, the fiscal investments and loans to public works are expanded by 10.8% over the previous year, thereby securing the necessary and sufficient supply of the funds to the construction of roads, airports, and other social overhead capital for the year. The FY 1992 FILP also supplies the funds to the financial needs of the local governments to develop the social overhead capital, inclusive of water supply and sewers. Moreover, by allocating the funds to the government-affiliated financial institutions, the FILP assists the private sector in the activities to improve social overhead capital in the fields of the urban development and traffic network arrangement.

3. Better Communication and Closer Cooperation among Ministries Involved in Complex Multi-Jurisdictional Development Projects

The Conference for Coordination concerning the Facilities related to the Kansai International Airport was established in October 1984 to facilitate coordination among the related ministries so that the improvement of airport-related facilities, such as roads and railways, would proceed in line with the construction of the airport.

The said conference has held three meetings since its establishment. At the first and second meeting, General Principles concerning the Facilities related to the Kansai International Airport was drawn up. At the third meeting held in December 1990, adjustment of the timing of airport-related facility improvement work was discussed because of the rescheduling of the opening of the airport.

After the budget is approved every year, the said conference promptly hold the secretary meeting to collect and coordinate concerning the airport-related facility improvement work among the related ministries.

To facilitate better coordination among ministries concerning the Tokyo Bay Area Development, the Council to Facilitate Tokyo Bay Area Development has held 11 meetings since its establishment in November 1986. Steering Committee being established under this Council, has held many meetings, three times in FY 1989, two times in FY 1990 and four times in FY 1991.

In this Council and its steering committee, the basic framework of the development of this whole area and the guidelines for the construction of fundamental facilities, such as roads and railways, have been discussed and coordinated.

In FY 1990, competitive bids were invited for the use of some parts of the Tokyo Teleport-town in this area, which is planned to be a sub-center of Tokyo conurbation, and in November in that year 14 firms have been selected. Efforts to promote the smooth realization of the development of this area is being constantly made, and in December 1991, in views of the recent social and economic change of situations, the framework has been revised, so that 1000 more families could be inhabited in this area.

4. Land Use, Deregulation, etc.

(1) In line with the "Outline of Promoting Comprehensive Land Policies" decided by the Cabinet on January 25, 1991, publicly held lands in metropolitan areas are used more efficiently with necessary precautions to secure lands for public use. Especially, sufficient consideration is given to the effective utilization for urban facilities, urban development plans, and public housing projects.

To appropriately develop and effectively utilize the discharged track yard site in Shiodome in accordance with the land-use plan submitted by the Assets Disposal Council in February 1989, the Government of Japan has been consulting with the Tokyo Metropolitan Government and other parties concerned. A city-planning decision concerning the new traffic system and related roads passing through the site was made in July 1990.

The Government of Japan is following the determination procedure for city planning of land readjustment project and redevelopment district plan.

(2) With respect to the public use of super-subterranean space, related ministries and agencies have been carefully studying and discussing the legal framework for the adjustment of private rights such as procedures for the protection of landowners, how to prevent disaster directly relating to people's lives and keep safety, the impact on the environment, and other aspects.

(3) As measures to provide incentives to the private sector to improve social overhead capital, the Government of Japan continues to guarantee the bonds issued by the Kansai International Airport Co. Ltd. and the Tokyo Trans-Bay Highway Corporation to facilitate the utilization of private funds.

In addition, utilizing the fund raised by the sales of NTT stocks, the Japan Development Bank, the Hokkaido-Tohoku Development Finance Corporation, and the Okinawa Development Finance Corporation continue to promote interest-free loans to the third sector and concessional loans (introduced in FY 1991) to third-sector and private-sector enterprises.

(4) Concerning the construction of the Joban New Line and the housing site development along it, the National Government recognized the basic plan on Oct. 23, 1991 which was made by the Tokyo Metropolitan Government and three prefectural governments based on the Special Measures Law.

According to the basic plan, the third-sector, Metropolitan Intercity Railway Company, which will operate the line, took the license based on the Law for Railway Business Enterprise on Jan. 10, 1992, and is preparing for construction which is scheduled to open in 2000.

Concerning housing site development projects along the line, the involved local governments are preparing for decision of the city plan, etc.

5. Private Consumption: Leisure Opportunity and Flexibility in Consumer Finances

(1) As to curtailing work hours, the Government of Japan has implemented a complete 5-day week for all government employees in May 1992, since the relevant bills were enacted in March 1992. Concerning the 5-day week for employees of local public bodies, since the relevant bill was enacted in March 1992, local public bodies have been

requested to make the necessary adjustments to implement the 5-day week, keeping pace with the national government as much as possible.

To promote the reduction of working hours in the private sector, the Ministry of Labour endeavors to instruct and assist the voluntary effort of the labour and management, while putting emphasis on [1] the dissemination of 5-day work week, [2] taking all entitled paid annual holidays, [3] the dissemination and prolongation of long holidays and [4] the reduction of overtime working hours.

In July 1992, in order to encourage employers and workers to reduce working hours, the Special Measures Law Concerning Promotion of Reduction of Working Hours was established.

The statutory working hours in the Labour Standards Law were shortened to 44 hours a week in April 1991. Moreover, the Central Labour Standards Council is now examining the whole legislations concerning working hours including 40-hours work week.

In July 1990, the Ministry of Labour formulated "the Guideline to promote long holidays", which shows the direction of actions to be taken by the labour and management towards [1] taking all entitled paid annual holidays and [2] dissemination and prolongation of long holidays. The Ministry of Labour is trying to make the guideline well known to the public.

Furthermore, "the Guideline on the reduction of overtime working hours" was formulated in August 1991 in order to suggest the actions the labour and management should take towards the reduction and to encourage the voluntary effort of the labour and management.

(2) The Government of Japan removed the restriction on access to bank teller machines by credit card companies and granted revolving credit function to the credit cards issued by bank affiliated companies this June.

(3) Operations of cash dispensers and automated teller machines on Sundays are rapidly spreading. These operations have been started not only at individual financial institutions level, but also at inter-bank level, which is that MICS (Multi Integrated Cash Service) started Sunday operation.

The operating hours of teller machines have been extended successively as described above. The Government of Japan regards it as desirable from a viewpoint of consumer convenience that financial institutions are willing to lengthen operation hours of teller machines according to their business decisions.

II. Land Policy

Soaring of land prices would damage socio-economic stability and vigor since it would further widen the gap of economic strength existing both among individuals and among firms. In view of the need to maintain vigorous economy supported by individuals with strong will to work, the land problem represents one of the most important domestic issues in Japan. The Government of Japan has been promoting various measures in both supply and demand aspects, in conformity with the cabinet decision of the "Outline of Promoting Comprehensive Land Policies" which was made in January 1991 as a guideline for the Land Policy, in line with the Basic Land Act.

Moreover, the Government of Japan adopted with a cabinet decision the "New Five-Year Economic Plan" in June 1992 aimed at "sharing a better quality of life around the globe."

In the "New Five-Year Economic Plan," providing a better housing is set as one of the most important themes for achieving a better quality of life. The Government of Japan attempts to improve residential standards by accumulating a stock of quality housing and providing good and safe residential environment through the continuous expansion of housing-related investment.

The plan proposes a criterion for acquiring a good quality housing in the metropolitan areas, including Tokyo, with a sum equivalent to roughly five times the average annual income of working households (i.e., the amount of funds which can be raised for purchase of a house under certain conditions). With a view to approaching this criterion as closely as possible, the plan promotes comprehensive land policies aimed at realization of appropriate levels of land prices and attempts to advance various measures including housing policies.

Keeping these in mind, the Government of Japan will continue to vigorously advance comprehensive land policies consisting of utilization of land taxation, encouraging supply of residential land and housing, and securing appropriate land uses, as follows.

*i) Further Improvement in Housing Situation

The Government of Japan will further pursue its comprehensive land and housing policy, so that middle class workers may accommodate an appropriate level of housing with reasonable financial burden.

The goals on average floor area per unit are set in the 6th Housing Construction Five-Year Plan and in the "Basic Plan for Public Investment", respectively. The former sets a goal at the level of approximately 95 square meters by the FY1995, and the latter sets another at approximately 100 square meters by the year of 2000. The Government of Japan will steadily improve housing situation and living environment in order to ensure the achievement of these goals.

The Government of Japan will encourage local governments to actively utilize the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land."

Concerning the land tax, the Government of Japan will steadily implement its measures of the Comprehensive Land Tax Reform, including introduction of the Land Value Tax, revision of taxation of capital gains from land transfer, revision of taxation on agricultural land within the Urbanization Promotion Areas and introduction of the Special Land Holding Tax on Idle Land. The Government of Japan expects that these measures will contribute to promoting more efficient use of land (including idle land) as well as to controlling or decreasing land price.

The Government of Japan will pursue rationalization of the land value assessment for the Fixed Assets Tax calculation, at the time of reassessment of the land in the FY1994, by setting its goal at about 70% of the Published Land Price. In order to avoid a drastic increase in tax burden accompanying such rationalization, the Government of Japan will explore adjustment measures at the review of tax reform for the FY1993.

*ii) Further Improvement in Land Utilization

In order to avoid further soaring of land prices, the Government of Japan will seek to attain an adequate level of land prices reflecting the value of land utilization, and will promote an effective and reasonable utilization of land including commercial property.

The Land Lease and House Lease Law was legislated in October 1991 for the purpose of adjusting to the changed circumstances and improving the legal relationship between lessors and lessees. The Government of Japan will accelerate the preparation for the enforcement scheduled in August 1992, including publicizing the objectives and the contents of the legislation to people concerned. Once put into force, the Government of Japan will adequately enforce the new law, which is expected to induce a more appropriate use and a larger supply of land including commercial property.

With regard to the various measures in the following 7 fields, expressed in the Final Report of SII and the First Annual Report of SII Follow-Up, the Government of Japan has taken necessary measures designated below.

- a. Promotion of further supply of housing and land for buildings in metropolitan areas
 - b. Comprehensive Land Tax Reform
 - c. Greater utilization of idle and under utilized land owned by the central or local governments or other public land
 - d. Improvement and increase of infrastructure necessary to facilitate increase in the supply of housing and residential land
 - e. The Land Lease and House Lease Law
 - f. Deregulation for the supply of Housing
 - g. Official assessment of land value
1. Promotion of further supply of housing and land for buildings in metropolitan areas

(1) Regarding the promotion of the supply of housing and residential land across two or more prefectures, the Construction Minister decided in March 1991 the "Fundamental Schemes regarding the Supply of Housing and Residential Land" about three major metropolitan areas based on the "Special Measures Law for Facilitating Supply of Housing and Residential Land in Major Metropolitan Areas" which was amended in June, 1990 and was enacted in November 1990. For example, the Fundamental Schemes set a goal that 4.31 million houses and 27,500 ha of residential land will be provided in Greater Tokyo area by the year of 2000.

Following these measures relevant prefectural governments, in conformity with the "Fundamental Schemes" above mentioned, have decided plans on the supply of housing and residential land.

(2) With regard to the establishment of a new system of identifying and promoting the utilization of idle and underutilized land, the Government of Japan established the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land" which was enacted in November 1990, based on the amendments of the "City Planning Law" and the "Building Standards Law" in June 1990.

The Government of Japan set forth the guideline for identifying idle land and underutilized land for local governments to designate the "Specified District Designated for Promoting the Utilization and Conversion of Idle Land" in the city planning and notified local governments the guideline.

The Government of Japan is encouraging local governments to use the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land" so that idle land and underutilized land such as unused plant site, might be utilized more effectively. As of June 1992, 5 areas are designated. The Government of Japan will continue to encourage local governments for more vigorous use of this system together with strengthening the Special Land Holding Tax on idle land mentioned below on 2.(2)(c) which was started on FY 1991.

2. Comprehensive Land Tax Reform

(1) The government of Japan conducted a comprehensive review of the land tax system at all stages of holding, transfer, and acquisition of land, with the viewpoints of assurance of appropriate and equitable tax burden on land, and of contributing to an overall land policy in preventing speculative transactions and promoting appropriate land use through reducing or eliminating the advantage of land as an asset.

Based on the "Basic Report on Desirable Land Taxation" issued by the Government Tax Commission on October 30, 1990, the necessary bills were submitted to the Diet in February 1991. These bills were passed and the amended law has been enforced.

(2) Main points of this land tax reform are followings and include all measures mentioned in the Final Report of SII (below b.c).

Although introduction of the Land Value Tax as a national tax was not specifically mentioned in the Final Report of SII, it is corresponding to the principle referred to in the Final Report of SII which emphasizes importance of pursuing appropriate tax burden on an asset of land. Introduction of the new tax means, in addition to the assurance of appropriate burden of the Fixed Assets Tax which has characteristics of general and broadly based levy on land holding, new tax burden will be annually imposed on holders of land with large asset value.

Strengthening of general capital gain taxation on land while expanding preferable treatments of capital gain in case of land transfer conducive to certain policy objectives is based on the idea that it is most important from the land policy viewpoint to establish a stable land tax system and to reduce advantage of land as an asset, taking into consideration our past experience.

(a) Introduction of the Land Value Tax

(b) as for the agricultural land within the Urbanization Promotion Areas in the designated cities in the three metropolitan areas, except for the agricultural land in the "Productive Green Area" abolishment of the deferment system of payment of the Inheritance Tax, and abolishment of the deferment system of payment of the Fixed Assets Tax

(c) Overall review of the Special Land Holding Tax and strengthening of the Special Land Holding Tax on idle land

(d) expansion of the preferable treatments of capital gain taxation in case of land transfer conducive to certain policy objectives such as securing land for public use and promoting supply of good residential land, etc.

(e) strengthening of capital gain taxation on land transfer except for the case referred in (d)

(f) countermeasures against tax avoidance

3. Greater utilization of idle and underutilized land owned by the central or local governments or other public land

(1) With regard to State-owned land used for administrative purposes and for residence for employees of the Government in the major metropolitan areas which was identified to be used more efficiently as a result of the examination of the utilization of the State-owned land, which was conducted in March 1991, the Government of Japan has set the following goals of converting the State-owned land to more efficient use.

(a) Out of 192 ha of State-owned land used for administrative purposes,

37 ha of State-owned land will be used more efficiently by improving the arrangement of buildings for administrative purposes, and

155 ha of State-owned land will be converted to other uses, giving priority to official and public uses, through disposal or other measures.

(b) Out of 166 ha of State-owned land used for residence for employees of the Government,

97 ha of State-owned land will be used more efficiently by improving the arrangement of the buildings for residence for employees of the Government, and

69 ha of State-owned land will be converted to other uses, giving priority to official and public uses, through disposal or other measures.

(2) As for the unused State-owned land in the major metropolitan areas, the Government of Japan, under the reinforcement of the principle of giving priority to official and public uses, made the policy that the Government will use the land efficiently for its own purpose at first, and use the rest systematically and selectively, from long-term view point, so that the wide and positive influence such as improvement of urban infrastructure and urban redevelopment will be introduced. In line with this policy, 720 ha of unused State-owned land in the major metropolitan areas will be utilized as follows;

(a) 264 ha of land is designated to the use for the improvement of offices and residence for employees of the Government and urban facilities, and urban redevelopment and others.

(b) 253 ha of land is decided to be reserved with the purpose of corresponding to future public needs.

(c) As for 203 ha, the proper plan will be made individually with the aim of efficient utilization, taking account of the trend of future public needs.

(3) Land owned by the Japanese National Railways Settlement Corporation located in metropolitan areas is an important financial source of redemption for debts of the Corporation and also it is valuable space to be developed left in the hearts of metropolitan areas. From these viewpoint, the Government of Japan is pursuing its efficient utilization taking into account various factors including considerations to land-price policy, conditions of land's location, and coordination with regional developments.

As of March 1992, 3,160 ha of land owned by the Japanese National Railways Settlement Corporation was disposed.

4. Improvement and increase of infrastructure necessary to facilitate increase in the supply of housing and residential land

(1) In view of installing steadily infrastructure necessary to facilitate increase in the supply of housing and residential land, the Government of Japan has made Cabinet Decision on the following Five-Year Plans and has been implementing them faithfully.

- (a) 6th Housing Construction Five-Year Plan
(Cabinet Decision; March 1991)
 - o Total number of houses; 7.3 million
(among them, 3.7 million houses are to be constructed by public subsidy and loan)
 - o Goal of average floor area per house;
approximately 95 m²
(88 m² as of mid 1988)
- (b) 7th Five-Year Sewerage Improvement Program
(Cabinet Decision; November, 1991)
 - o Total cost of investment scale; 16.5 trillion yen
(among which 2.4312 trillion yen was disbursed in FY 1991)
 - o Goal of sewerage service coverage ratio; 54%
(44% as of FY 1990)
- (c) 5th Five-Year Program for Developing Urban Parks
(Cabinet Decision; November 1991)
 - o Total investment scale; 5 trillion yen
(among which 606.3 billion yen was disbursed in FY 1991)
 - o Goal of urban parks area per capita in the designated area; 7.0 m²
(5.8 m² as of FY 1990)

(2) Circular notices were issued to give guidance in August 1988 and in July 1989 respectively to those who implement public projects and so on regarding the active utilization of eminent domain system and as a result, in FY 1991 the number of eminent domain operations authorized based on the "Land Expropriation Law" has largely

increased following the increase in FY 1990 (from 1,008 cases to 1,150 cases). The Government of Japan continues to encourage the more vigorous use of eminent domain through above mentioned circular notices.

(3) With respect to the public use of super-subterranean space, related ministries and agencies have been carefully studying and discussing the legal framework for the adjustment of private rights such as procedures for the protection of landowners, how to prevent disaster directly relating to people's lives and keep safety, the impact on the environment, and other aspects.

5. Review of the Land Lease Law and the House Lease Law

In order to meet the changed circumstances and to improve the legal relationship between lessors and lessees, and taking into account the desirability of greater availability of housing, a review of the Land Lease Law and the House Lease Law has been conducted since 1985 and the draft amendment of these laws was completed by the Legislative Council in February 1991.

In conformity with the draft amendment the bill of the "Land Lease and House Lease Law" and the bill to amend "the Civil Conciliation Law" were submitted to the Diet in March 1991, enacted in September 30, 1991 and were promulgated in October 4, 1991. Both Laws will be enforced from August 1, 1992.

The Government of Japan expects that these laws will help increase more appropriate use of land and the supply of good quality houses for lease.

6. Deregulation for the supply of Housing

(1) Regarding zoning designations and divisions between Urbanization Promotion Areas and Urbanization Control Areas, the Government of Japan gives guidance in compliance with the change of industrial structure and change of urban structure, and trend for land utilization conversion to review changing of zoning designations and divisions between Urbanization Promotion Areas and Urbanization Control Areas timely and properly. Second review has been conducted until March 1990 and 69,000 ha has been extended under the extension of Urbanization Promotion Area, and Chiba prefecture, Aichi prefecture and Hyogo prefecture have concluded the third regular review. Saitama prefecture, Kanagawa prefecture and Kyoto prefecture are doing the review.

(2) As for the deregulation for the promotion of the housing supply, the Government of Japan in June 1990 enacted the amendments of the "City Planning Law" and the "Building Standard Law" to establish the "District Plan to Promote Intensive Use of Residential Land" which will form a better urban environment and promote the supply of medium and highrise houses by utilizing agricultural lands, etc. within Urbanization Promotion Area.

This deregulation measures was operated in November 1990.

The Plan ensures the relaxation of limits on total floor area ratio, building heights, etc. and facilitates the conversion of agricultural land, etc. in Urbanization Promotion Area to a good urban area for medium and highrise houses. The Government of Japan since then, has been encouraging the utilization of this Plan actively.

7. Official assessment of land value

(1) In order to rationalize the land value assessment for the Inheritance Tax calculation expeditiously, taking into account the nature of the tax with a view to making the assessment closer to the market value, the Government of Japan has raised the assessment every year.

In order to rationalize the assessment still more, the Government of Japan has decided, from the assessment for the year 1992, to change the assessment time to January 1 of the applicable year in line with the time of the Published Land Price and to raise the level of assessment for the Published Land Price. (Actually, under this decision the assessment for the year of 1992 is going underway.)

On the other hand, by increasing standard points etc., the Government of Japan will continue to work on further rationalization of the assessment of land value which is the base of taxation of the Inheritance Tax and the Land Value Tax.

(2) The price of land for housing in standard location of designated cities (prefectural capital cities) with regard to reassessment of FY 1991 approved by Central Fixed Property Valuation Council in September 1990, has increased by 30 percent averagely compared to assessment of previous year and it is the biggest rise since 1976.

The Government of Japan has instructed local governments to rationalize their land value assessment for the Fixed Assets Tax calculation at the time of the

reassessment of the land valued in FY 1991, taking into account the land values of the standard points mentioned above.

Regarding the reassessment of the Fixed Assets Tax calculation of FY 1994, the Government of Japan has decided to further promote to rationalize the land value assessment for the Fixed Assets Tax calculation through setting its goal at about 70% of the Published Land Price, in line with the object of Basic Land Act.

Regarding the publication of street value, local governments have made public approximately 40,000 street values at the time of reassessment for FY 1991 to help ensure the rationalization. The Government of Japan also directs local governments for the planned expansion of publicized standard points in order for them to make public all the street values as soon as possible following the next reassessment.

III. Distribution System

Concerning the distribution system in Japan, the Government of Japan attaches great importance to the enrichment of consumer life in Japan through further improving efficiency, ensuring market access, and improving physical infrastructure. Based upon such recognition, the Government of Japan will continue to implement a wide range of measures.

- a. Improvement of import-related infrastructure
- b. Expeditious and proper import procedures
- c. Deregulation
- d. Improvement of trade practices
- e. Import promotion measures
- f. Standards and regulatory framework

1. Improvement of Import-related Infrastructure

(1) Airport Improvement

(a) On November 29, 1991, the Cabinet conference formulated the Sixth Five-Year Plan for Airport Improvement which has been initiated since FY1991. The Yen targets of the plan are 3,190 billion yen (66% more than those of the last plan).

In the Sixth Five-Year Plan for Airport Improvement the three most important projects ([1] the achievement of the second-stage development program of the New Tokyo International Airport, [2] the completion of the off-shore expansion of the Tokyo International Airport, [3] opening of the Kansai International Airport) will be promoted with top priority.

As for local airports, to meet growth of demand in air transportation and to fulfill aviation network, necessary improvement (construction and extension of runway and development of terminal areas in Nagoya, Fukuoka and other airports etc.) will be promoted.

To promote the overall concept of Kansai International Airport to meet medium-to-long term growth of demand in air transportation, the overall concept should be studied and concrete measures for sound

financial management and construction management should be ensured by the parties concerned.

(b) Improvement of necessary roads, including connection with main airports, is continuously prompted in line with the Tenth Five-Year Plan for Road Improvement (FY1988-1992 FY1991; 10.7163 trillion yen, total investment scale; 53 trillion yen).

(2) Harbor Improvement

The Eighth Five-Year Plan for Harbor Improvement (FY 1991-95) has been formally authorized by the Cabinet in November 1991. The improvement of container terminals for overseas trade and large scale multi-purpose terminals for overseas trade are given high priority in the Plan. The scale of investment in the Plan is 5,700 billion yen, 30% larger than the former Plan.

Concerning warehouse, construction promotion is undertaken through low-interest loan arrangements by such banks as the Japan Development Bank, and tax incentive measures. From the end of March 1990 to the end of the same month 1991, the increase in storage space of general warehouses is 5.5% and that of refrigeration warehouses is 8.6%.

(3) And in relation to the Global Partnership Plan of Action, and with a view to promoting import, the Government of Japan submitted to the Diet the bill concerning the development promotion measures for the imported goods and commodities dealing facilities in international seaport and airport areas (the Law on Extraordinary Measures for the Facilitation of Imports and Foreign Direct Investment into Japan (provisional translation) decided by the Cabinet on February 14). The bill was passed in Diet on March 27. The development promotion measures in the bill for such entities as developing import-related infrastructure are as follows:

- Capital infusion and loan guarantees by the Facilitation Fund for Industrial Structural Adjustment
- Favorable treatment of the Small Business Credit Insurance

2. Expeditious and Proper Import Procedures

(A) The Government of Japan has been steadily implementing the measures concerning expeditious and proper import procedures listed in the final report on the

SII talks, and thus achieved by 1991 the goal of 24-hour clearance (from presentation of import declaration to import permit) through entry procedures for normal cargo imports.

(1) Customs Clearance Procedures

- (a) Introduction of Sea-NACCS (Nippon Automated Cargo Clearance System for Sea Cargo)

Sea-NACCS came into operation at two major ports (Tokyo and Yokohama/Kawasaki ports) in October 1991. Its service areas are to be expanded to three other major ports (Kobe, Osaka/Sakai and Nagoya ports) in October 1992.

- (b) Upgrading of Air-NACCS (Nippon Automated Cargo Clearance System for Air Cargo)

An expansion of the service areas of Air-NACCS and a revision of its functions are scheduled for February 1993.

- (c) The Pre-Arrival Examination System

As reported last year, the scope of the Pre-Arrival Examination System was expanded and its procedures were simplified in April 1991.

- (d) Introduction of the Customs Intelligent Database System (an automated risk judgment system) supported by the Customs Database

The Customs Intelligent Database System (CIS) was introduced to the major customs offices of Tokyo and Yokohama/Kawasaki port areas in October 1991. Its service areas are to be expanded to the major customs offices of Kobe, Osaka/Sakai and Nagoya port areas in January 1993.

- (e) Ensuring the transparency of the classification decision

- (i) Improvement of the advance ruling program

Measures for improvement, such as an extension of the valid terms of the issued ruling letters, were introduced in September 1990 and April 1991 as reported last year.

(ii) Publication of classification decisions

Individual classification decisions were publicized in the booklet titled "Guidelines for the Classification of Import Goods" in August 1990 as reported last year.

Additional classification decisions have been publicized since March 1992.

(f) Narita-Baraki Issue

The customs clearance of international express carrier cargoes at Narita started in April 1991 as reported last year.

(2) Import Procedures other than Customs Clearance Procedures

In accordance with the report of the Japan-U.S. Experts Group on Import Procedures, the Government of Japan has been implementing the measures which have become feasible.

(a) Establishment of an integrated import processing system

(i) Establishment of the Liaison Committee

The Government of Japan established the "Liaison Committee among Import-related Agencies" in September 1990. Taking account of the results of the survey on the "through" time required from cargo arrival to cargo release, which was carried out in February 1991, the "Liaison Committee" has been examining measures for improvement in achieving more expeditious import procedures.

As a result, the Government of Japan will take such measures as promotion of public relations for the Pre-Arrival Examination System, facsimile information networks adjustment among the import-related offices, conversion of the Pre-Arrival Examination System into Air-NACCS and extension of the effective term of the food examination records as consistent with the conditions provided by the Food Sanitation Law.

- (ii) Concurrent processing of customs clearance and procedures required by import-related laws

The Government of Japan implemented concurrent processing of customs clearance and procedures required by import-related laws from April 1991 under the framework of the Pre-Arrival Examination System.

As a result, through the introduction of the Pre-Arrival Examination System, customs clearance procedures will be commenced simultaneously with the commencement of the import procedures other than customs clearance procedures.

(Before the introduction of this system, customs clearance procedures were commenced after the completion of the import procedures other than customs clearance procedures.)

- (iii) Facilitation of information transmission among import-related agencies

The "Liaison Committee" has initiated a basic study on facilitation of information transmission among import-related agencies.

- (b) Procedures required by import-related laws other than customs clearance procedures

- (i) Animal and plant quarantine

With regard to animal quarantine, the Government of Japan increased the number of quarantine officers from 207 to 223 in FY1991 as well as extended the working hours at major airports (Narita, Osaka, Fukuoka, Nagoya)**. It has also been preparing quarantine facilities in Hokkaido.

**Working Hours at Major Airports in Japan
(Monday-Sunday)

Airport	Plant Quarantine	Animal Quarantine
Narita	8:30 - 21:00	8:30 - 21:00
Osaka	8:30 - 21:00	8:30 - 21:00
Fukuoka	8:30 - 17:00	8:30 - 19:00
Nagoya	8:30 - 17:00	8:30 - 19:00

With regard to plant quarantine, the Government increased the number of quarantine officers from 685 to 706 in FY1991.

(ii) Pharmaceuticals

The Government of Japan allowed from July 1991 to apply for Yakkan certificate before the arrival of cargo. In 1991, 7,447 applications were received and 179 were processed before arrival.

(iii) Food Sanitation Law

In FY1991, the Government of Japan:

- publicized the Pre-Filing System which had already been introduced,
- presented a plan for a registration system of food factories in an exporting country (This system would supplement the current port of entry inspection, and plants that are not certified would not be excluded from trade with Japan. However, those certified would be on a fast-track for import acceptance, and essentially exempted from Japanese foods quarantine inspection of MHW.)
- increased food sanitation inspectors by a large number, from 99 to 143,
- increased the number of reception counters for import declaration of foods in quarantine stations from 22 to 26, and
- extended the working hours at Narita and Osaka Airports, from 7pm on weekdays and 5pm on Saturday and Sunday to 9pm throughout the year.

The Government intends to further its study on the introduction of a registration system of food factories in an exporting country and on enlargement of the scope of blanket handling.

(iv) High pressure gas

The Government of Japan amended the High Pressure Gas Control Law at the end of 1991 and simplified the import procedures for high pressure gas, by changing the authorization system to a notification system, and by exempting certain cases from the application of the regulation.

*(B) With the aim to further reducing the period of time between cargo arrival and its release to importers through more expeditious and proper import procedures, the Government of Japan will take the following measures:

(1) The Government of Japan will increase cargo that are to be processed either solely by the Japan Customs or otherwise through simplified procedures, without physical examinations at their arrival, through the implementation of concrete measures, listed below, concerning import-related procedures other than customs clearance procedures.

- (a) Enlargement of the scope of Blanket Handling
- (b) Expansion of the range of the Pre-Filing System prior to the arrival of cargo
- (c) Promotion of accepting examination data obtained in examinations abroad
- (d) Introduction of Registration System of Food Factory in Export Country

(2) With respect to import processing at Narita Airport:

- (a) construction is planned of two new buildings related to cargo processing and storage:
 - (i) Common Import Warehouse to be opened in 1993, with a capacity of 3,600 square meters
 - (ii) Cargo Building No. 4 to be opened in 1995, with a capacity of 44,000 square meters

It is expected that these infrastructure improvements will facilitate efforts to process and release more cargo at Narita without transport to Baraki. These infrastructure improvements will facilitate the review of the sorting criteria that currently determine which imports must be transported to Baraki for processing.

- (b) As for Narita-Baraki Issue which has been caused by the physical limitation on the cargo handling capacity in Narita Airport etc., the Government of Japan together with all parties concerned will examine how to eliminate the Narita-Baraki sorting criteria and take appropriate action with regard to the sorting criteria, once the consensus of all parties concerned is achieved.

Subjects of this examination will be progress of infrastructure improvement, achievement of consensus of all parties concerned, and composition of air cargo. The future trend of the aircargo should be also taken into account. Once these sorting criteria are eliminated, importers will be permitted to select whether they prefer their cargo to be processed at Narita or Baraki. It is expected that this development, when importers take advantage of the Pre-Arrival Examination System, should contribute to the reduction of import processing time from arrival to release to importer.

(3) The cargo processing system at the New Kansai Airport, will be discussed among all the parties concerned, including the customs authority, airlines, forwarders, customs brokers, exporters and importers.

In this deliberation process, the actual needs of distribution as well as the policy not to introduce the Narita-Baraki sorting criteria into the New Kansai Airport will be important factors.

(4) It is the policy of the Government of Japan that the following elements will be introduced at the New Kansai International Airport. Similar considerations would be given to other new or expanded international airports taking their cost and benefits into account.

-- Facilities adequate to permit importers to have their cargo expeditiously processed directly at the airport without transfer to an offsite import processing area ("hozei").

-- Cargo processing systems that make maximum use of the processing improvements such as those contained above in "Expeditious and Proper Import Procedures," e.g. NACCS, Pre-Arrival Examination System, Customs Intelligent Database System, as appropriate, to permit expeditious processing directly at the airport.

(5) With respect to customs clearance procedures, the Government of Japan aims to achieve release of low risk cargo processed under the Pre-Arrival Examination System to importers virtually immediately upon presentation of import declaration to customs, and will take the following measures:

- (a) As the Pre-Arrival Examination System is expanded, the Government of Japan will encourage importers to increase voluntary utilization of

the system, in order to contribute to more expeditious processing of imports from arrival to release to importers. The Pre-Arrival Examination System will be installed within the Air-NACCS System in February 1993 to further enhance efficiency of the system.

- (b) The Government of Japan intends to reach full utilization of the Customs Intelligent Database System (CIS) as soon as possible at all offices where the system is operational. Expansion of the use of CIS is expected to contribute to reducing the period of time between arrival and release of cargo to importers, through more efficient selective processing.

(6) For the purpose of achieving more expeditious and proper import procedures as a whole, the Government of Japan will enhance further coordination among the import-related agencies through the activities of the "Liaison Committee Among Import-related Agencies." Concerning, in particular, the computerized transactions of import procedures, the Government of Japan will promote computerization of the import-related offices, and plans to introduce the electronic interfaces between individual systems of import-related offices and the customs clearance information processing system of Japan Customs.

Prior to the introduction of the electronic interfaces, the Government of Japan will improve facsimile information network among the import-related offices for more effective information transmission. In the case of receiving documents to give permissions and/or approvals under import-related procedures other than customs clearance procedures through this network, Japan Customs will process such documents as valid.

(7) The Government of Japan and the Government of the United States will resume the Japan-U.S. Experts Group on Import Procedures, and the Group will regularly report to the SII principals on discussions at the meeting, status of implementation of the relevant measures, and other relevant matters, including the reduction of time for cargo release.

3. Deregulation

(1) Large-Scale Retail Store Law

Concerning the Large-Scale Retail Store Law (LSRSL), in succession to the deregulation measures for appropriate implementation of the law since May 1990, the amended LSRSL and Special Law on Exceptional Measures concerning Floor Space for Import Sales were enforced on January 31, 1992. These new legislations were introduced from the standpoint of sufficient consideration upon consumer interest, ensuring expedited processing, enhanced clarity and transparency of the coordination procedures, and consideration upon international request to Japan to increase imports. The summary of the change in the law and the corresponding reform in the procedures are as follows.

(a) The coordination processing period for opening stores is shortened to within one year.

(b) In order to enhance clarity and transparency of coordination procedures for opening stores, the Council for Coordination Commercial Activities was abolished, and the coordination is conducted by the Large-Scale Retail Store Council.

(c) In order to restrain separate regulations by local public authorities, necessary legal measures are provided.

(d) New opening or expansion up to 1,000m² of floor space for import sales in a large-scale retail store is exempted from coordination procedures after notification.

The amended LSRSL will be reviewed two years after the enforcement.

(2) Regulation of Premium Offers

The regulation of premium offers by the Act Against Unjustifiable Premiums and Misleading Representations, including that by Fair Competition Codes, is designed to ensure fair competition in the market place and to protect consumer's interests. Obviously, this system will not be an impediment to new entry by foreign or domestic firms, and the Fair Trade Commission (FTC) has enforced and will continue to enforce this system so that it does not impede such new entry.

Responding to changes in economic environment, Fair Competition Codes on premium offers are being reviewed, and 38 codes have already been reviewed by the end of FY 1991. The regulation of Fair Competition Codes on premium offers in 14 industries including chocolate was relaxed in FY 1990, and among them, the relaxation in Newspaper and Magazine Publishing Industries was related to advertisements with coupons. Furthermore, in FY 1991, the regulation of those in 12 industries (Processed Tomato Products, Instant Noodles, Import Liquor selling, Shochu, Japanese Sake, Medical Laboratories, Newspaper Publishing, Travel Agencies, Household Electric Appliances, Magazine Publishing, Publication Retailing, and Rubber Footwears) was relaxed. Review and relaxation as necessary of other codes on premium offers will be completed in FY 1992.

Furthermore, the FTC, from the viewpoint mentioned-above, has taken measures to clarify and review specific contents of premium and related regulations, and will continue such clarification and review, as appropriate.

(3) Regulation concerning liquor sales and other businesses

(a) As for the issuance of liquor sales licenses, the statement was made in the Final Report of the SII that "the Government of Japan has decided on front-loading licensing to large retail shops (with a floor space of more than 10,000 m²), which are expected to sell more imported liquors," and also that "the issuance of licenses to all of those shops will be completed by the fall of 1993." In accordance with the Report, the Government of Japan has been putting the measure into practice in a steady manner, that is, the Government of Japan issued about 100 licenses for the period from September 1989 to August 1991 to the large retail shops and, in this manner, will issue about 50 licenses for the period from September 1991 to August 1992.

(b) On trucking business, the Trucking Business Law took effect on December 1, 1990. In addition, the MOT published "The guidance for flexible fare-systems on trucking business" in June, 1991, which contributes to making competitive environment among trucking companies.

4. Improvement of Trade Practices

(1) The FTC, with a view to securing transparency of the enforcement of the Antimonopoly Act, issued the "Antimonopoly Act Guidelines concerning Distribution Systems and Business Practices" (Guidelines) in July 1991. The Guidelines aim to contribute to deterring violations of the Antimonopoly Act and encouraging appropriate business activities, by means of providing guidance on the Antimonopoly Act with regard to distribution systems and business practices, and thus, ensuring the understanding on the part of domestic and foreign firms, trade associations and consumers, etc.

Part II of the Guidelines, keeping in mind manufacturer-distributor transactions relating to consumer goods, describes the Commission's enforcement policy of the Antimonopoly Act on restrictions which manufacturers may impose on their distributors and on abuse of retailers' dominant bargaining position vis-a-vis their suppliers, from the viewpoint of regulation of unfair trade practices.

The FTC, at the publication of the Guidelines, issued its statement that the FTC would endeavor to disseminate these Guidelines and vigorously enforce the Antimonopoly Act in accordance with the Guidelines, and continues to implement such policy.

After the issuance of the Guidelines, firms have actively addressed to establishing internal Antimonopoly Act compliance programs, making reference to the Guidelines, and the FTC has supported such voluntary efforts.

(2) MITI is encouraging the industries concerned to take steps to improve trade practices, based upon the guideline for improving trade practices which was presented in 1990. Private sectors, for the improvements of trade practices, have taken positive steps such as establishing conference on each industry and making reports concerning Automobile, Household Electric Appliances, Apparel and Synthetic detergent industries.

5. Import Promotion Measures

(1) The Government of Japan has been steadfastly implementing the import expansion measures. The details are as follows:

- (i) Imports of manufactured products eligible for the Tax Incentives for Manufactured Imports increased by 18% in FY 1990 over the previous fiscal year, while the imports of manufactured products not eligible for the incentives increased by 8% during the same fiscal year.
 - (ii) The budget allocation for import promotion has increased up to ¥10.1 billion in the FY 1992 Budget from ¥7.2 billion in the FY 1991 Budget. The dispatch of Senior Trade Advisors and Merchandise Specialists, reception and dispatch of trade missions, organization of the Export-to-Japan Study Program seminars, provision of information, organization of exhibitions, and so on have been being implemented.
 - (iii) In FY 1991 the Export-Import Bank of Japan made ¥193.1 billion worth of loans for the imports of manufactured goods. During the same fiscal year the Japan Development Bank made ¥32.4 billion worth of loans for the facilities for imported products and for the promotion of foreign direct investment in Japan. In addition, the Export-Import Bank of Japan has introduced an import-promotion credit-line system for the companies that have drawn and publicized plans to increase imports of manufactured goods.
 - (iv) Further, the bill of the "Law on Extraordinary Measures for the Facilitation of Imports and Foreign Direct Investment into Japan" (provisional translation) has been put in force on July 16, 1992. Under the Law, "Foreign Access Zones" will be established at harbors and airports and in their vicinities with a view to assisting import-promoting businesses, and loan guarantee systems has been established for import financing for manufactured products whose imports are deemed particularly necessary and appropriate to promote.
- (2) The Import Board compiled general requests and opinions related to import expansion and facilitation expressed at the first meeting of the Import Board, and reported them to the Trade Conference in October 1991. Thus following, the second meeting of the Import Board was held in November 1991. The Government of Japan held the third meeting in July 1992.

Partly based on the requests expressed, especially by American members, at the first meeting of the Import Board, the Committee for Drawing up and Promoting the Action Program agreed on "the Understanding on Government Procurement" in November 1991.

Further, in response to the various requests expressed at the second meeting of the Import Board, especially by American members, it was decided in March 1992 to convene a special subcommittee meeting of the Import Board (Ad Hoc Group Meeting), and the first Ad Hoc Group Meeting was held in April 1992 and the second in May 1992.

To note: it was stated in the Japan-U.S. Global Partnership Plan of Action of January 1992 that "The Government of Japan intends to intensify the work of the Japan Import Board".

* (3) Import/Foreign Investment Promotion Incentives

(i) Business Initiatives for Global Partnership

The Government of Japan, recognizing the significance and importance of the Business Initiatives for Global Partnership (BGP), will support the voluntary efforts made by Japanese companies through the BGP which is aimed at promoting imports to Japan, local procurement by Japanese-affiliated companies operating abroad, and cooperation between Japanese and foreign firms.

It is expected that many foreign companies will fully take advantage of such opportunities and establish cooperative working relationships with Japanese companies.

The Government of Japan, to grasp the development of private activities, will follow up voluntary plans of private firms concerning the BGP, and will explain at the SII meetings the outline of the progress of their activities under the BGP and evaluation of the result.

(ii) Import/Foreign Investment Incentives Programs

The "Law on Extraordinary Measures for the Promotion of Imports and the Facilitation of Foreign Direct Investment in Japan" (provisional translation) was enacted in March, 1992, to

promote imports to Japan and facilitate the foreign business activities in Japan. The Government of Japan will explain to the SII meetings on the implementation of the measures based on this law and evaluation of the result of the program.

(iii) JETRO Senior Trade Advisers

The Government of Japan will seek to increase the number of overseas JETRO Senior Trade Advisers, including to the United States, to facilitate Japanese corporate procurement and other import expansion efforts.

(4) The Office of Trade and Investment Ombudsman (OTO) decided the "New Review" on the standards, certification and inspection, and the "On the present activities of OTO" on June 27, 1991. In addition to receipts and processing of complaints, OTO is carrying out various measures which include the investigations of foreign standards and inspection, preparation of the documents concerning the resolutions of the complaints, and consideration of opinions and requests raised to OTO.

At the visit of the U.S. President Bush to Japan in January 1992, OTO intently considered the complaints on the standards and certification in such areas as auto, industrial machinery, chemicals, transportation equipment, processed food, cosmetics and pharmaceuticals which were raised to OTO as the matters of concern by the U.S. Government. All of the 14 auto issues and other 49 issues were resolved or will be resolved in a satisfactory manner. The "Global partnership plan of action" mentions that "The Government of Japan will continue to actively address market access issues raised by foreign companies and others through the OTO".

The Government of Japan addressed those opinions and requests which were filed with the OTO, at the OTO Executive Meeting in June 1992 after the report and deliberation at the OTO Advisory Council and others. Those covered the issues raised by the Delegation of the Commission of the European Communities, Japanese economic bodies such as KEIDANREN in addition to those concerning standards, certification, inspection and import procedures raised by the U.S. Government at the visit of the U.S. President Bush to Japan.

As of May 1992, OTO has accepted 475 complaints, of which 436 cases have already been processed since its establishment in January 1982. Of the processed

complaints, improvement measures have been taken for 144 cases, or about 30 percent of the total, while eliminating misunderstanding for 174 cases, or about 40 percent, thereby contributing to promotion of import. OTO shall continue to process complaints and to consider opinions and requests taking account of opinions of the OTO Advisory Council and the Special Grievance Resolution Meeting through the report to and the deliberation by them. Information on the receipt and processing of complaints is published and distributed home and abroad including foreign chambers of commerce and embassies in Japan in a timely fashion as a monthly, quarterly and yearly report.

(5) MITI decided to study trade practices with regard to production goods and capital goods to better understand practices in the industrial product and wholesale distribution sectors and started work on the study at the end of FY1991. The results of the study will be drawn up by the end of FY1992.

*(6) General Trading Companies

The Governments of Japan and the United States will conduct a joint survey on the roles of the Japanese Sogo Shosha. The period of the survey will be one year, and the results of the survey will be reported to the SII meetings.

The items for the survey will be as follows:

- (i) the impact of Japanese Sogo Shosha in the United States on U.S. exports to Japan and other countries, U.S. investments in Japan, and technology transfer;
- (ii) with respect to the same products, comparison of the U.S. market prices and Japanese market prices for imports into Japan handled by the Sogo Shosha together with price surveys including these prices of the same products which are transacted in channels other than Sogo Shosha with a view to highlighting the role of the Sogo Shosha in the determination of final prices, and,
- (iii) relations including ownership links between Sogo Shosha and import-related infrastructure (docks, warehouses, etc.) to the extent feasible.

The Governments of Japan and the United States will set up a working group to discuss and determine contents and methods of the survey. The first meeting of the working group will be held by the end of September.

6. Standards and Regulatory Framework

(1) The Government of Japan has already committed itself to the basic guidelines that standards and certification framework on products based on provisions of national laws and other regulations should be at least approximately comparable to those of other countries in terms of market accessibility, as stated in the "Action Program for Improved Market Access" adopted on July 30, 1985. Along with these guidelines, the Government has been implementing the measures that would ensure "fair and equal opportunities" for foreign products with respect to access to the Japanese market, and "transparency in the policy making process in the establishing or revising of standards". Along with the same guidelines, the Government has been conducting a strict check-up thereafter in establishing or revising standards and certification framework.

The Government of Japan is committed to deregulation wherever possible and desirable in order to be responsive to the needs of entrepreneurs and consumers, while taking into consideration international norms as judged against practices of industrial countries.

* (2) In order to further enhance the openness of standards and certification framework and others, the Government of Japan will, based on the above-mentioned Action Program, continue to steadily observe the following principles.

- (a) Developing Japanese standards in a transparent environment;
- (b) Ensuring Japanese standards to be consistent, in principle, with international ones;
- (c) Basing Japanese standards on objective and scientific data as much as possible;
- (d) Simplifying and expediting inspection and other procedures as much as possible through such efforts as accepting foreign test data; and,
- (e) When the lack of a safety standard is the only standards issue impeding market access, establishing new standards for products, including foreign ones, as swiftly as feasible, wherever new or foreign technologies can be demonstrated to the satisfaction of the Japanese Government to be safe. In making such a determination, the Japanese Government will pay full consideration to foreign analyses based not only on safe use but also on scientific data.

(3) Based on the above-mentioned principles, the Government of Japan has made efforts to improve market access, addressing those opinions and requests which were filed with the OTO by foreign chambers of commerce and industry in Japan, the Keidanren and others concerned with OTO activities. These steps will further improve market access in sectors such as industrial machinery, chemicals, transportation equipment, processed food, cosmetics, and pharmaceuticals.

(4) The Government of Japan has taken steps to be responsive to the standards concerns,

(a) Foods and toys etc. from the same lot arriving in Japan after the original safety testing certificate has expired need not be retested, if they are accompanied by copies of the original import notification and documentation on the safety results.

(b) With respect to foreign safety testing data on foods etc., a list of foreign testing laboratories that have been recognized by the Ministry of Health & Welfare (MHW) has been available.

*(5) Further, pursuant to complaints by foreign enterprises and others concerned, the OTO Advisory Council will identify problems concerning Japanese standards and certification framework and others, including datemarking system of foods, and put forward its opinions on necessary policy actions in a report to be published by around the end of March 1993, from the viewpoint of principles (a) to (e) in para (2). By the end of May 1993, the Government is subsequently to decide on responses, respecting duly these opinions in the report. This report will include the consideration on governmental regulations concerning market opening issues in all of the primary, secondary and tertiary industries.

*(6) The Government of Japan will positively take up specific complaints by foreign enterprises and others concerned, through such channels as meetings with foreign chambers of commerce and industry in Japan, foreign government representatives, and OTO missions to foreign countries. The Government will enhance the activities of the OTO with a view to facilitating such process. The OTO will promote further prompt and appropriate processing of raised complaints.

IV. Exclusionary Business Practice

Maintenance and promotion of fair and free competition is an extremely important policy objective, which not only serves the interest of the consumers but also increases new market entry opportunities including those of foreign companies. Based upon such recognition, the Government of Japan has implemented and will implement wide-ranging measures in the following six areas.

The progress has been made as described below since the issuance of the Joint Report and the First Annual Report of the SII. Through such positive steps taken in these areas, fair and free market competition has been further promoted in the Japanese market.

- a. Enhancement of the Antimonopoly Act and its enforcement.
- b. Greater transparency and fairness in administrative guidance and other government practices.
- *c. Encouragement of transparent and non-discriminatory practices of private companies.
- d. Facilitation of patent examination disposals including a shorter examination period.
- *e. Dispute Resolution.
- *f. Increased Opportunities of Government Procurement.

1. Enhancement of the Antimonopoly Act and its Enforcement

(1) Resorting More to Formal Actions

The Fair Trade Commission (FTC) has rigorously dealt with activities violating the Antimonopoly Act and has strictly excluded such conduct through resorting more to formal actions. In FY 1989, the FTC made seven recommendations, 22 recommendations in FY 1990 and 30 recommendations in FY 1991.

The FTC also issued surcharge payment orders to 101 firms involved in 10 cartel cases, which amounted about ¥2billion (about \$15.4 million) in FY 1991.

The FTC will continue to deal rigorously with antimonopoly violations through resorting more to formal actions.

(2) Ensuring Greater Transparency

The FTC has published the contents, including the names of the offenders, the nature of the offense and circumstances surrounding it, of all formal actions such as recommendations and surcharge payment orders.

Furthermore, since October 1990, the FTC has followed a policy of publishing all warnings other than in exceptional cases. 24 warnings were issued in FY 1991 and the names of the parties concerned and contents of the warnings in these 24 warning cases were made public.

The FTC will publish in its annual report description of the cautions issued during the relevant reporting period. Each discription will state the line of business in which the conduct occurred, and the nature of the conduct for which the caution was issued.

(3) Consultation and complaint from Foreign Firms

The FTC established the Consultation and Complaint Section for Foreign Firms in June 1990, and has dealt with consultations and complaints from foreign firms concerning the Antimonopoly Act. 14 consultations and complaints were received since the establishment.

The FTC will ensure that the Section works more effectively, and respond to consultations and complaints from foreign firms in a prompt and adequate manner and with strict confidentiality.

(4) Personnel and Budget of the FTC

The Government of Japan expanded the budget and personnel for the FTC, mainly aiming at the enhancement of the FTC's investigation department, from FY 1990 to FY 1992. Concerning investigation department, in particular, the total number of personnel for both headquarters and local offices was increased in a large extent (about 40%) from 129 to 178, and six new offices were created.

The Government of Japan will continue with its efforts to steadily improve and strengthen the FTC, focusing the enhancement of investigation department.

(5) Surcharges

The Government of Japan submitted the bill to revise the Antimonopoly Act to increase the level of surcharges in principle, by four times, to the Diet during the regular session last year, in order to enhance the deterrent effect against cartels. The bill was enacted on April 19, 1991, and the revised Antimonopoly Act took effect as of July 1, 1991.

The FTC will continue to vigorously enforce the surcharge system under the revised Act.

(6) Resorting to Criminal Penalties

a. The FTC will actively accuse to seek criminal penalties on the following cases, and this policy was made public in June, 1990:

(a) Vicious and serious cases which are considered to have wide spread influence on people's livings, out of those violations which substantially restrain competition in any particular field of trade such as price cartels, supply restraint cartels, market allocations, bidrigging, group boycotts and other violations.

(b) Among violation cases involving those businessmen or industries who are repeat offenders or those who do not abide by the elimination measures, those cases for which the administrative measures of the FTC are not considered to fulfill the purpose of the Act.

In January 1991, Liaison Meeting on Criminal Accusations was established between the Public

Prosecutor's Office and the FTC, and the two agencies have been exchanging views and information regarding specific problems on individual antimonopoly violation cases, in order for criminal accusations to be brought in a smooth and appropriate manner.

Under the policy, the FTC, after holding the Liaison Meeting with the Public Prosecutor's Office concerning price-fixing case of wrap for business use, brought criminal accusations against eight manufacturers and their 15 executives and employees in violation of the Antimonopoly Act in November and December 1991. The Public Prosecutor's Office indicted them in December and the case is now on trial.

The FTC will continue to make efforts to exercise its accusation authority strictly and promptly and, where the FTC makes an accusation, the Public Prosecutors Office will continue to make special efforts to rigorously pursue such cases.

b. Recognizing the necessity to enhance the overall deterrent effect against antimonopoly violations, on March 27, 1992, the Government of Japan submitted the bill to revise the Antimonopoly Act to the Diet to raise the upper limit of criminal fines against firms from the current ¥ five million (about \$ 40 thousand) to ¥100 million (about \$ 800 thousand), on offenses of private monopolization, unreasonable restraint of trade and substantial restraint of competition by trade associations.

(7) The Damage Remedy System

a. In order that the damage remedy system be effectively utilized concerning antimonopoly violations on which the FTC's decisions have become final and conclusive, the FTC has been taking the following measures:

(a) The FTC has described and will describe its findings on the violations as concretely and clearly as possible in its document of decisions, so that any party suffering damage from violation of the Antimonopoly Act be facilitated to resort to damage remedy suits based on Section 25 of the Antimonopoly Act or Article 709 of Civil Code. Furthermore, in May 1991, in order to alleviate plaintiffs' (injured parties') burden of proof in damage remedy suits, the FTC made public specific standards concerning submission to the court and retention by the FTC for three years of materials and data regarding antimonopoly violations on which the FTC's decisions have become final and conclusive.

In October 1991, the FTC, based on the standards, submitted to the court materials and data, concerning a bidrigging case at the Yokosuka U.S. Naval Base, in which the FTC had issued surcharge payment orders, in a private suit related to damage claim by the U.S. Government (injured party).

(b) The FTC held "the Study Group on the Methodology for Calculation of Damages" consisting of scholars, and conducted its deliberations, in order to improve the content of the FTC's opinion based upon Section 84 of the Antimonopoly Act regarding causation between damage and violations, the amounts and calculation methodology of damages. The report of the Study Group was publicized in May 1991.

The FTC, paying due consideration to the report, will describe its views concerning the causation between violations and damages and the amount and calculation methodology of damages in its opinion to be submitted to the court upon request, and will attach materials and data which serve as a basis of its opinion to the possible extent.

(c) The FTC has conducted and will continue to conduct public relations activities in a positive manner, so that companies and consumers well recognize the significance and the role of the damage remedy suit system under Section 25 of the Antimonopoly Act and the measures by the FTC described above.

b. The FTC will also provide, upon request from the injured parties, or their representatives, i.e. attorneys, or the courts, with copies of the warning documents in cases where the warnings have been made public.

c. The Ministry of Justice, as stated in the First Annual Report, has conducted its basic study on whether the current filing fee for civil actions with huge amount in controversy should be reduced. As a result of the above mentioned study, the Government of Japan has concluded that such filing fees should be reduced in the view of realization of civil action system which would be utilized with ease adequately following the current changes in social and economic situations both domestic and abroad. The Government of Japan, therefore, has submitted a bill to the Diet to substantially decrease filing fees for civil actions with huge amount in controversy -- e.g. as for civil actions with amount in

controversy of more than two billion yen, their filing fees are to be reduced approximately to half or less than half. The bill became a law in May on passage by both Houses. And the law is to take effect on October 1, 1992.

(8) Effective Deterrence against Bidrigging

(a) The Government of Japan has been taking appropriate measures (such as the enforcement of the suspension of the designation) to eliminate bidrigging on government-funded projects. For example, with regard to AMA violations involving 66 companies in Saitama Prefecture, these 66 companies have been suspended from bidding for 1 or 2 months by the ministries and agencies of the GOJ and local governments. In accordance with provisions of Construction Contractors' Law, instructions were also issued to all the 66 companies to take such steps as requiring their executives and staffs to attend a training program. Moreover, procuring agencies will increase their vigilance against bidrigging activities on their procurements, and will on their own judgment report relevant information regarding such activities to the FTC. Furthermore, in the National Coordinating Committee for Implementation of Public Works Contract Procedures, procuring agencies were clearly directed to observe the above mentioned policies.

(b) The FTC has strictly enforced the Antimonopoly Act against bidrigging, and took formal actions against four cases in FY 1990 and FY 1991 respectively.

The FTC will continue to vigorously eliminate bidrigging.

(c) In reviewing the fines provided in the Criminal Code, the bill to revise the Criminal Code to increase the maximum fine against bidrigging from current one million yen to 2.5 million yen (among the highest in the Criminal code) was enacted on April 11, 1991. The revised Criminal Code took into effect on and after May 7, 1991.

*(9) International Contract Notification

The Fair Trade Commission (FTC) revised the Rules on Filing Notification of International Agreements or Contracts on March 30, 1992. Under the revised Rules,

international contracts involving licensing of trademarks or copyrights are excluded from filing requirements, and the scope of filing requirements on other types of international contracts are drastically reduced. This revision has so far resulted in a decrease in the number of notifications by approximately 85% from the same period of the previous fiscal year (May and June of FY 1991) levels and this trend is expected to continue. The JFTC confirms that antimonopoly enforcement concerning international contracts will not discriminate against the foreign parties to such contracts.

2. Government Practices

(1) Promotion of Administrative Reform

(a) The Government of Japan has steadily implemented the General Plan for the Promotion of Deregulation decided by the Cabinet on December 13, 1988, in particular, by enacting 23 deregulatory laws between 1989 and 1992. Last November, the Government of Japan issued the third follow-up report concerning deregulation.

(b) On December 28, 1991, the Cabinet affirmed a Cabinet Decision entitled "the Administrative Reform Plan of 1992," to promote further deregulation in accordance with the above-mentioned General Plan for the Promotion of Deregulation and the SII reports. In the 1992 Plan, the Government of Japan committed to the promotion of deregulation in the fields of distribution, telecommunications, finance, and others.

(c) Since its inauguration, the Third Provisional Council for the Promotion of Administrative Reform submitted to the Prime Minister several reports and opinions, including three reports on administrative reform for promoting internationalization and better quality of life, and a report for the introduction of uniform legislation for fair and transparent administrative procedures, etc.

In the Administrative Reform Plan of 1992 and the Cabinet Decision of June 30, 1992, the Government of Japan has made public its commitment to promote administrative reform, while paying maximum respect to the above-mentioned reports and opinions.

(d) The Council continues its work on administrative reform.

(2) Administrative Guidance

(a) Draft of the Administrative Procedure Law

The Third Provisional Council for the Promotion of Administrative Reform completed its deliberations on the Draft Administrative Procedure Law (Draft) in December, 1991. The Draft contains provisions applicable to administrative guidance. Such provisions on administrative guidance stipulate, among other things, that: (1) administrative guidance will be issued making clear its purpose, content, and responsible officer; (2) upon request by a party who has been given the administrative guidance, the ministry or agency will, in principle, provide a written document which will contain relevant information as mentioned in (1) above on the administrative guidance; and (3) when administrative guidance is issued for the same purpose to multiple parties, the guidelines of such administrative guidance will be established and published, unless there are special reasons not to do so which are generally described in the Explanation Section of the Draft. Through these provisions, the Draft is intended to ensure that administrative guidance is transparent and clear.

(b) The Interagency Understanding on the Criterion Applicable to Administrative Information Disclosure

In December 1991, Directors of the Documents and Archives Offices of all ministries and agencies met and adopted "The Interagency Understanding on the Criterion Applicable to Administrative Information Disclosure" (Criterion). The Criterion is a uniform criterion to be used by each ministry and agency in making their determinations whether to disclose government information pursuant to a request by parties.

Each ministry or agency is to apply the Criterion to each case, striving to disclose the documents under government control as much as possible from the point of view of securing public confidence in the government and utilizing administrative information.

The Criterion is applied to all documents (i.e., papers, graphs, photographs, film, magnetic tapes, etc.) managed by the ministries and agencies. Those documents are categorized into 23 categories

and the standards to decide whether to disclose such documents or not are described in each category in the Criterion. The grounds for refusal of disclosure common to each category (personal data, business proprietary information, information concerning national security and foreign affairs, information on public safety such as criminal investigation, and information about decision-making process) are also described in the Criterion.

In December 1991, in the Administrative Reform Plan of 1992, the Cabinet adopted as its Cabinet Decision that respective ministries and agencies will "apply the Criterion precisely and aim at spreading the scope of disclosure."

In this Criterion each ministry or agency is to disclose documents relating to administrative guidance in principle.

(3) Advisory Committees and Study Groups

(a) The Interagency Understanding on the Criterion Applicable to Administrative Information Disclosure

As one of the categories described in the Criterion, documents concerning the meetings, inquiries, submissions, and proposals of Councils and Advisory Committees are in principle, required to be disclosed.

(b) The Government of Japan has been and will continue to make efforts to implement the principles stated in Part 2(3) of the Exclusionary Business Practices section of the Joint Report. In particular, continuing efforts are being made to hear the opinions of foreigners or representatives of foreign companies in due course of the deliberation of government-sponsored industrial advisory committees and study groups and to consider the participation of qualified foreigners in industrial study groups when such study groups address matters relevant to the interests of foreign firms.

Some of the examples of government-sponsored industrial advisory committees that have solicited foreign views since the adoption of the Joint Report are as follows: The Trade Conference, the Provisional Council for the Promotion of Administrative Reform, the Securities and Exchange Council, the Insurance

Council, the Committee on Foreign Exchange and Other Transaction, the Research Committee for Agricultural and Forestry Standard, the Industrial Structure Council, the Chemical Products Council, the Industrial Technology Council, the Council for Transport Technology, the Council for Tourism Policy, the Telecommunications Council, the Telecommunications Technology Council.

(4) AMA Exemptions

a. The exemptions from the application of the Antimonopoly Act should be at a minimum, and the necessity of existing exemptions has been reconsidered with a view to promoting competition policy. The scope of exemptions has also been reviewed, even in cases where they are maintained, beginning with the exemptions, if any, which impede import trade or investment.

b. The FTC had independently held a study group consisting of scholars and other experts, and in July 1991 the study group published a report which contained the results of its deliberation. Among the proposals in the report, based on the recognition that the existing exemption systems and their administration should be reviewed, are limited use of the exemption cartel systems, including discontinuance of cartels whose effectiveness as a policy tool seems doubtful, and fundamental review of the exemption systems for resale price maintenance, including the possibility of withdrawing commodity designations.

*c. With regard to the exemptions from the application of the Antimonopoly Act (AMA), the Government of Japan recognizes that such exemptions should be kept at a minimum in order to maintain and promote fair and free competition in a free market economy. As recognized in the Third Report of the Administrative Reform Council, issued June 19, 1992, antimonopoly exemption systems can "limit fair and free competition on product prices, quality, and production volume, retain marginal businesses, and make it possible for a small number of companies to obtain excessive profits and, as a result, impede sufficient business efforts to supply goods and services with good quality and low prices, hurting consumer benefits." Respecting the Report fully, the Government of Japan will conduct a broad review of AMA exempted cartel systems under individual laws (as of June 1992, 47 systems under 28 laws) by the end of FY1995. In this review, the Government of Japan will quickly advance

the review of those AMA exemptions which, among others, have lost the necessity or substantive meaning in light of the changes in economic environment, the introduction of substitute measures and other factors, and those which have caused adverse effect through excessive restriction of competition, with a view to, in principle, eliminating or narrowing the scope of those AMA exemptions.

The Government of Japan will also take the following specific measures based upon the recognition above:

(a) Those cartels of textile industries which are exempted from the application of the AMA in accordance with provisions of Law Concerning the Organization of Small and Medium Enterprises Organizations will be abolished by the end of October 1995.

(b) With regard to those cartels which are exempted from the application of the AMA in accordance with provisions of Law on Extraordinary Measures for the Rationalization of the Coal Mining Industry, an amendment to the Law including the elimination of the related provisions was promulgated and became effective on March 31st, 1992, following its enactment in the 123rd Diet;

(c) The FTC, taking into account of the recommendations in the report published in July 1991 by the Study Group on government regulation, etc., and competition policy, conducted a thorough review of AMA exemptions on the resale pricing, including fact-finding surveys and extensive hearings from the industries concerned, consumers, academic experts and others.

As a result of such review, in April 1992, the FTC has decided that, concerning cosmetics and pharmaceuticals, designation of AMA exemptions which cover approximately half of the currently designated items will be revoked, in principle, from April 1993 and the rest will be reviewed in 1998. The FTC will implement the above-mentioned measures.

***(5) Transparency and Due Process in Government Processes**

In order to ensure further transparency in government practices, the Government of Japan will implement the following measures:

a. The Government of Japan will work at submitting a bill of the Administrative Procedure Law and a bill to

amend related provisions of existing laws to the next ordinary session of the Diet, in accordance with the outline of the draft of the law described in the recommendations of the Administrative Reform Council.

b. The Government of Japan will establish an appropriate interagency group to examine the preparation of guidelines concerning the formation and operation of government-sponsored industrial advisory committees and study groups with the view to ensuring transparency and reasonable opportunities to reflect views of interested parties, including those of foreign parties where appropriate.

c. The Government of Japan will make the existing review mechanism function in a smooth manner in order to effectively process complaint against administrative activities.

*3. Practices of Private Firms

(1) Procurement Practices of Private Firms

The Minister of International Trade and Industry issued his statement, July 26, 1990, in order to encourage private firms to promptly make their procurement procedures transparent and non-discriminatory against foreign goods. The Government of Japan reaffirms the principles of open, transparent, and non-discriminatory corporate procurement contained in the MITI statement. To this end, MITI conducted surveys both in 1991 and 1992. The 1992 survey results collected from 329 major companies (25.5% response rate) indicate steady progress in a number of areas for example: 81.8% of the respondents had established a specific department to handle overseas procurements (up from 65.4% in the 1991 survey) and 79.6% had established internal procurement procedures (up from 67.6% in the 1991 survey). Areas showing limited progress include: 32.1% of the respondents had created manuals on observance of laws related to procurement activities such as the AMA and 36.5% of respondents indicated they had established the system to ensure transparency and avoid discrimination in procurement. The surveys show that efforts are being made by Japanese businesses to realize open and transparent procurement activities. At the same time, there is a need to do more to improve transparency and avoid discrimination in procurement practices. In addition, the Government of Japan will initiate its third statistical survey by the end of the FY1992.

Recognizing the importance of encouraging, from an international view point, private firms to make their procurement procedures and practices transparent and non-discriminatory vis-à-vis foreign suppliers, the Government of Japan will expand upon its efforts to encourage private firms, among others, to develop and publicize company-specific pamphlets on procurements and to advance their efforts to develop internal programs to ensure compliance with relevant laws and regulations concerning procurements.

The Government of Japan will examine the possibility that a seminar, with the participation of interested Japanese, U.S., and other foreign firms, will be held on the procurement practices of private Japanese firms with the leading role of appropriate private organizations. The Government of Japan hopes to have the cooperation of the U.S. Government: in (1) inquiring whether U.S. firms wish to volunteer to speak on their own procurement practices; and (2) identifying and notifying select U.S. companies that might be interested in attending the seminar. In the seminar, matters related to transparency and non-discrimination in procurement procedures will be discussed with the participation of interested Japanese, U.S., and other foreign firms.

The Government of Japan encourages the cooperative efforts of Japanese industry and U.S. industry to conduct seminars in the United States to assist U.S. firms in expanding sales opportunities with Japanese subsidiaries in the United States. Examples of such cooperative efforts were the seminars between the American Electronics Association and the Electronics Industry Association of Japan held in 1992. The Government of Japan will encourage further efforts along these lines to be expanded to other industries, where appropriate.

The Government of Japan highly appreciates, as a voluntary undertaking, the intention of the Japan Federation of Economic Organizations (Keidanren) to prepare a list of contact points for procurement made public voluntarily by its member firms and to make available pamphlets on procurement voluntarily submitted by its member firms as a follow up to the "Guidelines of Procurement Policies", which were produced by Keidanren and released on April 1990.

(2) Trade Association

Reconfirming that trade associations play a useful role in various dimensions of economic and social development, and that their activities should not hinder foreign trade and investment in Japan, the Government of Japan will take the following measures:

(1) The FTC will vigorously deal with violations of Antimonopoly Act (AMA) by trade associations and monitor their activities. Furthermore, the FTC will advance the review of matters relating to trade associations' activities from a viewpoint of competition policy, in the Study Group on Trade Associations, which has been held since January 1992. The Study Group is examining the organization and activities of trade associations with a view to identifying the implications for antimonopoly policy of the activities of trade associations. The results of such review and any proposals will be published. The FTC, based on the results, will take appropriate measures as necessary.

(2) The Government of Japan reconfirms that it will pursue policies based upon free and fair market principles and make efforts to ensure that the activities of trade associations which act as representatives of each industry and commerce are open, transparent, and non-discriminatory in order to improve market access for foreign firms in the Japanese market.

To this end, and because certain trade associations play a major role in information dissemination, industrial and market research, industry coordination efforts and in some instances the development of standards, among other functions, each ministry of the Government of Japan will undertake the following;

- (i) prepare and make available a list of major trade associations under its jurisdiction;
- (ii) encourage such trade associations to prepare reports, describing their activities, membership and on-going activities with the Government of Japan, to the extent possible; and
- (iii) compile such reports and make them available to interested foreign parties.

4. Effective Patent Examination

Regarding the harmonization of the patent system and its practices, the Government of Japan has actively participated in discussions at Multilateral forums such as WIPO and GATT-TRIPs, etc. and has made its utmost efforts to promote the discussions there. The Government of Japan, together with the U.S. Government, will actively participate in these discussions and contribute to concluding the treaty as well as other initiatives.

As for the average patent examination period of Japan, the Government of Japan has vigorously promoted comprehensive policy measures to expedite patent examination disposals. And through such comprehensive policy measures, there has been improvement in the situation of delays in patent examination. The average patent examination period of Japan has already been reduced from 37 months in 1988 to 30 months in 1991.

Furthermore, the budget for FY 1992 will greatly expand our comprehensive policy measures. Thus the budget will include an increase in the prescribed number of patent examiners and other officials involved in patent disposals by 66 persons (an increase in patent examiners and other relevant officials by 66 persons in FY 1991), as well as funding for further promotion of the paperless system (an increase in budget of 9% over FY 1991), for expansion of contracting with a specialized outside agency for prior arts search necessary for patent examination and for use of outside patent experts to assist patent examiners in examining patent applications (an increase in budget of 43% over FY 1991).

Through continued promotion of these comprehensive policy measures, the Government of Japan will make its utmost efforts to implement the contents of the final SII report.

* The Government of Japan will issue a report, by the end of 1992 and 1993, to indicate in detail the content of comprehensive policy measures which have been taken and how much these measures have shortened the average period of patent examination by 1991 and 1992, respectively, as an overall effect of such comprehensive policy measures.

*5. Dispute Resolution

(1) Review of Civil Litigation Procedure

The GOJ fully supports increased access to civil justice. In this regard, irrespective of what is being done in SII, the Ministry of Justice began a study in July 1990 of amendment of the Civil Procedures Code in the Legislative Council. The Council is reviewing all aspects of the provisions of the Code as to civil litigation procedure. Since these provisions as a whole were revised in 1926, many changes have occurred in the Japanese society and economy, and civil disputes have become more complicated and been diversified along with development of the society. The Council is now continuing its review, having the goal of the end of 1995 in mind to formulate

the outline of draft revisions to the Code. The MOJ will continue to assist the work of the Council so that necessary improvements to the civil litigation system, making the civil litigation procedure more suitable in filling the needs of today's society, and civil litigation more usable and understandable, can be realized.

(2) New Mechanisms for Resolving International Commercial Disputes

International commercial arbitration schemes in Japan have been improved, as evidenced by the adoption of the UNCITRAL arbitration rules by the Japan Commercial Arbitration Association. Through such improvement, the international commercial arbitration schemes in Japan have definitely become comparable to those of other countries.

The Government of Japan will support efforts by the Japan Commercial Arbitration Association to enhance public relations and other activities for effective resolution of international commercial disputes by schemes other than the civil litigation system.

The Government of Japan will also actively support endeavors by the Japan Commercial Arbitration Association to examine, keeping close contact with the arbitration organizations in foreign countries, possible additional measures for resolving international commercial disputes in further effective and expeditious manner through schemes other than the civil litigation system, through the establishment of a study group. The Government of Japan will welcome if JCAA voluntarily will decide that the study group includes foreign members who are knowledgeable about international commercial dispute resolution mechanisms.

6. Government Procurement

In the interest of expanding government procurement opportunities based on the principles of non-discrimination, transparency, and fair and open competition, the GOJ has taken a series of steps with regard to government procurement, and will take additional steps set out below with a view to seeking to further improve its procurement practices.

(1) It should be noted that since April 1992, the Government of Japan has taken a number of new steps with regard to government procurement in accordance with the understanding in November 1991 on measures to expand opportunities. They include: (a) the enhancement of the

transparency of bidding procedures such as adding new items to the English summary, listing inquiring offices in tender notices in the "Kampo", and the extension of the bid time; (b) lowering the threshold for application of the GATT Government Procurement Code (GATT Code) procedures from SDR 130,000 to SDR 100,000; (c) the expansion (addition of 28 organizations) of the coverage of quasi-governmental organizations; and (d) the announcement of large-scale procurement plans (above the threshold of SDR 1 million) in the "Kampo", at an early stage of each fiscal year.

(2) Further, the Government of Japan reconfirms the government procurement principles, established under the GATT Code, or set forth in the "Action Program for Improved Market Access" of 1985, that competitive bidding should be adopted and single tendering should only be used in exceptional cases, and that the procurement of competitive foreign products will be expanded and the transparency of the government procurement procedures further enhanced.

In accordance with such principles, the GOJ will take the following steps from April 1st 1993:

- Single-tendering will be used only in those cases which are justified in accordance with procedures of the Code so that the use of single-tendering will be held to a minimum, and single-tendering will not be used to favor domestic suppliers.
- Lists of individuals responsible for procurement in each procurement entity (Ministry, Agency or quasi-governmental organization to which either the GATT Code, the Action Program of 1985, or the Action Program of 1991 is applied.) will be made available to interested foreign and domestic parties on a non-discriminatory basis. Such lists will include action officers, not just those nominally responsible for procurement. Further, tenders published in the "Kampo" will include names of sections and officials responsible for the procurement. Names of other relevant officials will be made available upon request through the officials named in the "Kampo."
- The procurement entities will seek further to simplify and unify qualification procedures and application forms among themselves. This will include keeping qualification requirements to the minimum necessary for determining supplier capability and other related factors. Further, the procurement entities will publicize the existence of qualified suppliers lists and the steps necessary to be added to those lists on a regular basis.

- At no time may a procurement entity deny an interested supplier the opportunity to be added to a qualified supplier list and all inquiries regarding such lists will be promptly answered so as to permit qualification without delay through examination on a regular or ad hoc basis.
 - The procurement entities will disseminate among procurement officials information related to the formulation of specifications in a neutral manner including the formulation of performance specifications. Training programs for procurement officials will be implemented.
 - All potential foreign and domestic suppliers will be accorded equal access to pre-solicitation information, where available, and provided with equal opportunities to participate in such pre-solicitation phase. In this regard, the procurement entities are encouraged to conduct explanation sessions even prior to publishing tender notices, where necessary, such as in cases of especially complex procurements.
 - A seminar on government procurement will be held at an early stage of every fiscal year, at which government procurement officials make presentations about the procurement schedule of large-scale projects announced in the "Kampo". At the same time, procurement officials will be available to explain government procurement procedures. At the seminar, foreign vendors and others may make presentations to those officials.
- (3) In addition, the GOJ will expand the scope of organizations and the areas of coverage and provide bid challenge procedures based on the result of negotiations on the GATT Code.
- (4) The Government of Japan will take the following additional steps for the effective deterrence of practices which infringe the Antimonopoly Act (AMA), including bid-rigging.
- The procurement entities will assign a contact person with the FTC to provide information concerning practices that may violate the AMA.
 - Training programs for procurement officials from the procurement entities will be implemented from JFY 1993, from a viewpoint of preventing antimonopoly violations, in particular, in order to improve procurement officials' identification of, and collection of relevant information concerning,

bid-rigging activities. In this regard, the FTC will advance cooperation with the procurement entities, in terms of developing such training programs and also will provide lecturers and written materials to the procurement entities.

-- The GOJ will seek to ensure the effective deterrence of bid-rigging through strict enforcement of the AMA, suspending of the designation of those companies that have been involved in the bid-rigging, and other means. In this regard, the GOJ, through civil suits where appropriate, will give consideration to seeking to recover damages suffered by the GOJ as a result of unlawful bid-rigging, when such damages are identified.

V. Keiretsu Relationships

The Government of Japan, recalling that there are certain aspects of economic rationality of Keiretsu relationships, in response to concerns that Keiretsu relationships may give rise to anti-competitive business practices, negatively affect foreign direct investment, and promote preferential group trade, reaffirms its intention to take necessary steps to make Keiretsu relationships more open and transparent.

The Government of Japan has implemented a wide range of measures in the following areas discussed in the Joint Report so that business transactions among companies with the background of Keiretsu relationships do not hinder fair competition and transparent transactions and thereby have an exclusionary effect on the entry of foreign firms into the Japanese market. In addition, the Government of Japan has been implementing a wide range of measures to facilitate the entry of foreign firms into the Japanese market.

- a. Strengthening the Function of the Fair Trade Commission
 - b. Foreign Direct Investment
 - c. Revision of the Take-Over Bid System
 - d. Enhancement of Disclosure Requirements
 - e. Reexamination of the Company Law
1. Strengthening the Function of the Fair Trade Commission
 - (1) The Fair Trade Commission (FTC) has strengthened its monitoring of transactions among Keiretsu firms, to determine whether these transactions are being conducted in a way that impedes fair competition.
 - (2) The FTC, with a view to securing transparency of the enforcement of the Antimonopoly Act, issued the "Antimonopoly Act Guidelines Concerning Distribution Systems and Business Practices" (Guidelines) in July 1991. The Guidelines aim to contribute to deterring violations of the Antimonopoly Act and encouraging appropriate business activities, by means of providing guidance on the Antimonopoly Act with regard to distribution systems and business practices, and thus, ensuring the understanding on the part of domestic and foreign firms, trade associations and consumers, etc.

Part I of the Guidelines keeping in mind producer-user transactions relating to producer goods and capital goods, describes the Commission's enforcement policy of the Antimonopoly Act primarily on business practices effected to create or enhance continuous transaction relationships or conducted on the strength of such relationships, which may result in hinderance of new entries of firms into a market or exclusion of existing ones from the market chiefly from the viewpoint of regulations of unreasonable restraints of trade and unfair trade practices.

The FTC, at the publication of the Guidelines, issued its statement that the FTC would endeavor to disseminate these Guidelines and vigorously enforce the Antimonopoly Act in accordance with the Guidelines, and continues to implement such policy.

After the issuance of the Guidelines, firms have actively addressed to establishing internal Antimonopoly Act compliance programs, making reference to the Guidelines, and the FTC has supported such voluntary efforts.

(3) The FTC, in order to grasp actual conditions of corporate groups, conducted research on interlinkages among member companies and intra-group transactions within the six major corporate groups. The result of the research, which covered mainly FY1989, was published in February 1992.

The FTC, from a viewpoint of competition policy, will continue to monitor the functioning of the six major corporate groups, and to conduct regular surveys on the actual conditions.

The FTC has also conducted surveys on actual conditions of transactions among companies in specific industries from the viewpoint of competition policy. In June 1991, the FTC published the result of the surveys on continuous transactions in four specific industries (Household Electric Appliances Manufacturing, Shipbuilding, Synthetic Fiber Manufacturing, and City Gas Service). The FTC has commenced surveys in other four industries (Paper, Glass, Automobiles, and Autoparts), and the result of the surveys will be published. The FTC will take such action as necessary to remedy anti-competitive exclusionary behavior in case where such behavior may have been revealed in the surveys.

2. Foreign Direct Investment

(1) A bill to amend provisions of the Foreign Exchange and Foreign Trade Control Law concerning foreign direct investment and importation of technology was approved by the Diet in April 1991, as is stated in the SII Final Report.

Thereafter, the Government of Japan promulgated the Cabinet Order, Ministerial Order, Public Notice etc. concerning the amended Law, as is stated in the First Annual Report of SII. The amended Law has been put into effect since January 1, 1992.

The following is the outline of the new regime of foreign direct investment and importation of technology.

1) Foreign Direct Investment

(a) The old procedures that required prior notification for every foreign direct investment have been revised to the procedures under which almost all investments, except the cases as investment in industries related to national security or related interests and in four sectors as reserved under Article 2 of the Code of Liberalization of Capital Movements of OECD, could be executed upon the judgment of foreign investors and they have only to submit ex post facto reports to the authority after the execution.

(b) The Public Notice which was published on December 21, 1991 includes an extensive list of all sectors clearly excluding those which concern national security or related interests as described in Article 3 of the Code and those as reserved under Article 2 of the Code, and thus requiring only ex post facto report. Consulting this list, foreign investors can easily judge whether they are expected to submit an ex post facto report or file a prior notification; hence, legal procedures have been rendered more transparent.

(c) This list is prepared on the basis of the most fractionalized classification of The Standard Industrial Classification for Japan (SICJ). As a result, transparency has further increased and a broader range of sectors have been enumerated in this list. While the old procedures required prior notification for every foreign direct investment, sectors enumerated in this new list for ex post facto reporting cover the greater part of sectors listed in SICJ, thereby openness of the regime has been substantially strengthened.

The sectors on the list which are related to national security-aircraft, ordnance, atomic power and space development-require prior notification. They are identified in the Notes alongside the table of the list. However, the number of those sectors is limited.

(d) It should be emphasized that foreign direct investments in those sectors which are not enumerated in the list remain under prior notification procedures, but those foreign direct investments can not be restricted, unless they, if executed, are deemed to threaten national security or related interests, or might adversely and seriously affect smooth performance of the Japanese economy.

That is to say, the provision of the Law stipulating "it might adversely and seriously affect the smooth performance of the Japanese economy" will be used to further limit the application of restrictions in the sectors reserved under the OECD Code.

(e) The Government of Japan will continue to review the list, reflecting the changes of the economic circumstances and the development of the discussions in the OECD.

In the interest of promoting foreign direct investment, the GOJ recognizes that restrictions to FDI should be kept to a minimum. Therefore, recognizing the Policy Statement on the Openness of Japanese Foreign Investment Policy issued in June, 1990, and the objectives of the OECD Code of Liberalization of Capital Movements, the GOJ continues to review carefully its reservations with regard to the sectors requiring prior notification only for economic reasons under the Foreign Exchange and Foreign Trade Control Law within the framework of the OECD.

* In line with the above mentioned statement, the GOJ has amended provisions of the Foreign Exchange and Foreign Trade Control Law, and adopted several measures to facilitate the foreign business activities in Japan. As a part of such FDI policy, the GOJ will undertake, by the time of the next annual report of SII follow up, through an appropriate organ to compile and publish a guide on investing in Japan for the convenience of foreign investors. This guide will include, among other information, a description of the new regime of foreign direct investment, a detailed list of sectors and the corresponding SICJ codes requiring only ex post facto report and a description of incentive programs made available by the GOJ.

2) Importation of technology

(a) Ex post facto report procedures have been also introduced for importation of technology. As an exception, importation of technology could be restricted when it satisfies the same criteria below as applied to foreign direct investment.

(i) Importation of technology for which there is no obligation of liberalization under the Code of Liberalization of Current Invisible Operations of OECD, and

(ii) Among such importation of technology under item (i) above, those which, if executed, are deemed to threaten national security or related interests, or might adversely and seriously affect the smooth performance of the Japanese economy.

(b) Under the new regime, only 5 technologies concerning national security or related interests remain under prior notification procedures. They are technologies related to aircraft, arms, explosive manufacturing, atomic power, and space development. Other technologies require only ex post facto report.

(2) The low-interest loan facility offered exclusively to foreign companies and Japanese affiliates of foreign companies by such financial institutions as the Japan Development Bank (JDB) was drastically expanded or newly established in June, 1990.

The budgetary measures in the FY 1992, furthermore, will be taken for the reduction of the interest rate applied to the relevant projects contributing to import expansion and international exchanges enhancement.

In addition to arranging seminars and missions for potential investors which have been implemented by JETRO, the Government of Japan has increased its fiscal 1992 budget for JETRO in order to enable it to further implement measures such as designating advisors on investment at its overseas offices.

3. Revision of the Take-Over Bid System

Regarding the Take-Over Bid (TOB) System, as is stated in the SII Final Reports, an amendment bill of the Securities and Exchange Law to revise the TOB system was approved by the Diet in June 1990, thereafter the revised system has been placed into effect since December 1, 1990.

4. Enhancement of Disclosure Requirements

(1) Regarding the so-called 5 percent rule, which requires the disclosure of substantial shareholding as is stated in the SII Final Report, an amendment bill of the Securities and Exchange Law to introduce the rule was approved by the Diet in June 1990, thereafter the rule has been placed into effect since December 1, 1990.

(2) Among the measures to enhance the disclosure requirements related to the Keiretsu problem, in relation to enhancement of reporting of related-party transactions, disclosure of the consolidated financial statement in the primary annual statement and inclusion of sales amounts by major customers in unconsolidated financial report, the Government of Japan promulgated a ministerial ordinance on December 25, 1990 that incorporated the whole contents that were stated in the SII Final Report. These measures have been implemented from the business year beginning on or after April 1, 1991.

With respect to the rule for segmented financial reporting, it was described in the SII Final Report that sales amounts and operational profits and losses by industry as well as sales amounts in a home country and in abroad would be disclosed. The Government of Japan, in accordance with the Report, has implemented this rule from the business year beginning on or after April 1, 1990.

* The GOJ considers it important to further improve the scope of segmented disclosure requirements and recognizes that standards of disclosure in other major industrial countries include information by overseas subsidiaries by geographic regions.

The GOJ agrees to report to the 1993 follow-up meeting of the SII on the state of GOJ review with a view to possible implementation for the purpose of furthering investor protection.

*(3) In order to enhance deterrent effect of the penalties against corporations violating the Securities and Exchange Law, the Government of Japan has submitted a bill to the Diet which includes increased penalties against failures to disclose required information or fraudulent disclosure. The bill was approved on May 29.

5. Reexamination of the Company Law

The Ministry of Justice has been seriously pursuing the goal of next amendment of the Commercial Law as

evidenced by the swift resumption of the Legislative Council following the enactment of the amended Commercial Law in June, 1990. The Legislative Council has been currently advancing the deliberation on the necessity to examine the items raised in the SII Final Report and the First Annual Report of SII Follow-up as well as on those on the original agenda of the Council.

* From the viewpoint of enhancing the disclosure requirements and the shareholders' rights in the Commercial Law, the Legislative Council has been currently examining such specific issues as improving shareholders' access to corporate financial books and records by relaxing share requirements needed for access to a meaningful extent, and facilitating derivative lawsuits. It is continuing the examination on the issue of simplifying the rules on mergers and acquisitions. It has also commenced its reexamination of restrictions on the companies' repurchase and holding of their own shares.

The Ministry of Justice will seek to further expedite such discussions of the Legislative Council, and will submit a bill for amending the Commercial Law to the Diet immediately after the Recommendation of the Legislative Council is available and consultations with other related Ministries are concluded.

The GOJ will use its best efforts to ensure that amendments to the Commercial Law will enter into effect at an early date, and will report at the next SII meeting on progress.

The Government of Japan expects that the Japanese Companies will operate shareholders' meetings properly according to the provisions of the Commercial Law. The GOJ confirms that the Commercial Law enables shareholders to exercise their voting rights through their proxies and to exercise them disunitedly, and it also expects that the parties concerned will give their careful considerations to avoid possible obstacles to the exercise of shareholders' voting rights by foreign shareholders.

VI. Pricing Mechanisms

Based upon the recognition that it is undesirable, in realizing a high quality of life, for large and unreasonable price differentials between domestic and overseas markets to continue to exist for a long time, the Government of Japan has been implementing policies to adjust the differentials, and the policy measures have been implemented as follows after presenting the First Annual SII Follow-up Report.

- a. Implementation of Measures to Adjust Price Differentials between Domestic and Overseas Markets
- b. Promotion of Deregulation

1. Implementation of Measures to Adjust Price Differentials between Domestic and Overseas Markets

(1) The adjustment of price differentials between domestic and overseas markets has been pursued, from a consumer-oriented standpoint, mainly by the Government-LDP (Liberal Democratic Party) Joint Headquarters for Adjustment of Price Differentials between Domestic and Overseas Markets. The Headquarters reviewed, in its fifth meeting held on May 26 this year, the implementation of measures that it had acknowledged to be taken with a view to adjusting the price differentials.

(2) The implementation of the measures has brought about a number of concrete results such as:

- The amendments of the Anti-Monopoly Act and the Large-Scale Retail Store Law;
- The lowering of various prices for public utilities such as telephone charges;
- Wider public interest in comparative price information, such as that included in the two SII Joint Price Surveys;
- The creation of the Foreign Access Zones (FAZ) for the further promotion of imports; and
- The review of the exemption from the Anti-Monopoly Act with respect to resale price maintenance.

(3) The Government intends to continue its efforts to implement the measures further.

2. Continuous Implementation of Domestic and Overseas Price Surveys and the Dissemination of Information to Consumers and Industries

The two governments have agreed, despite the description at point 2.(2) of the Pricing Mechanisms section of the SII Joint Report, that the independent surveys by the Japanese government agencies conducted in the framework of the SII have finished in 1991, and that any survey of price differentials conducted as part of SII should be hereafter conducted jointly by both governments, in order to establish a common understanding for proceeding with the SII talks.

3. Promotion of Deregulation

(1) The General Plan for the Promotion of Deregulation has been steadily executed; 23 deregulatory laws have been enacted as of June 1992. Last November, the third follow-up report was made public.

(2) On December 28, 1991, the Cabinet made a decision titled "The Administrative Reform Plan of 1992", to promote deregulation in accordance with the General Plan for the Promotion of Deregulation and the reports of SII.

(3) Since its inauguration, the third Provisional Council for the Promotion of Administrative Reform (PCPAR) has submitted to the Prime Minister several reports and opinions; two reports on administrative reform for promoting internationalization and improving quality of life, and a report for the introduction of uniform legislation for fair and transparent administrative procedure, etc.

In the "Administrative Reform Plan of 1992", the Government has made public its commitment to promote administrative reform, paying maximum respect to, and, in accordance with, these reports and opinions.

On June 19, 1992, the third PCPAR made public the third report on administrative reform for promoting internationalization and improving quality of life. The Government has made its commitment to promote administrative reform, paying maximum respect to, and, in accordance with, this report.

STRUCTURAL IMPEDIMENTS IN THE U.S. ECONOMY

I. Saving and Investment Patterns

During 1991 the U.S. current account deficit declined substantially to \$9 billion from \$92 billion in the previous year, taking into account the one-time \$43 billion positive effects of Operation Desert Shield/Desert Storm. Reducing the current account deficit remains an important goal of U.S. economic policy. An increase in the U.S. saving rate would make an important contribution toward reducing the deficit. An increase in the saving rate would also contribute to a lowering of long term interest rates and would increase the incentive to invest which in turn would increase both productivity and the rate of economic growth. Since the Report of May 1991, the Administration has taken several steps intended to promote increased saving by both the private and public sectors. These steps, as elaborated in the following sections, should facilitate an increase in the U.S. saving rate.

I.A Update on the Federal Budget Deficit

Controlling the Federal budget deficit is a necessary step in order to increase overall saving in the United States. Federal deficits reduce saving in the economy by channelling resources mainly to public consumption. The Administration's top budget priority has been, and continues to be, the elimination of the overall consolidated Federal Budget deficit. The enforcement provisions embodied in OBRA 90 have been implemented in order to attain this goal, though all of the intended effects have not materialized yet due to the recession which has had a significant effect on revenue.

In the July, 1992 Mid-Session Review of the Budget the Administration has projected a total budget deficit of \$333.5 billion for FY 1992, down from \$399.7 billion estimated in February principally due to a deposit insurance change of \$69.1 billion. The projected deficit represents 5.7 percent of projected GDP, compared with 4.8 percent in FY 1991 and 4.0 percent in FY 1990. The budget deficit for the first nine months of FY 1992 (through June, 1992) was \$227.7 billion, versus \$178.1 billion for the same period last year.

The increase projected in the estimated deficit for FY 1992 reflects several factors, most notably technical and economic adjustments that present a more realistic assessment of the effect of existing laws, the impact of a weaker-than-anticipated economy on revenues and outlays, and the cost of resolving insolvent financial institutions. These increases in the budget deficit are perceived to be temporary by the Administration; further efforts are needed to make steady progress on reducing the structural deficit (the deficit excluding cyclical components) in FY 1993, compared to FY 1992, and after.

- o After slowing in 1989, the U.S. economic expansion ended in July 1990. Economic growth in the fourth quarter of 1991 was 0.4 percent; recent data indicate first quarter 1992 growth was significantly higher, 2.7 percent. The

sluggish economy has generated substantially lower levels of Federal revenues than anticipated and higher-than-expected Federal outlays for those programs affected by the downturn.

- The economic outlook for 1992 has improved somewhat: the consensus among private economists is that the U.S. economy has experienced a shallow recession and growth is now beginning to resume. The revenues and outlays in the 1992 Mid-Session Review for FY 1993 are based on assumed rates of 5.8 percent (current dollars) and 2.7 percent (constant dollars) economic growth in CY 1992 (fourth quarter over fourth quarter).
- o The financial transactions of the Resolution Trust Corporation (RTC) and other deposit insurance programs, now classified as "on-budget", have severely aggravated projected Federal budget deficits in the near-term. For example, these transactions are projected to result in net outlays of \$66.3 billion in FY 1991, \$11.0 billion in FY 1992, \$59.4 billion in FY 1993, and \$26.7 billion in FY 1994. In the longer-term, however, the sale of assets acquired from failed financial institutions is expected to lead to a net inflow of revenue: an estimated \$28.1 billion in FY 1995, \$22.6 billion in FY 1996, and \$21.9 billion in FY 1997. Moreover, despite their magnitude, RTC transactions are unlikely to have any significant impact on the national saving rate or the U.S. current account.
 - Unlike most other on-budget expenditures and receipts, RTC transactions have little effect on interest rates and the overall economy. The RTC's transactions would not induce depositors to change the level of deposits they hold or other aspects of their saving behavior.
 - The cyclical component of the budget deficit was estimated in the February Budget at \$53 billion in FY 1992 and \$50 billion in FY 1993. The budget estimates also reveal an increase in the structural deficit in FY 1992. A resumption in the reduction in the structural deficit of \$41 billion, however, is forecast for FY 1993, and a \$28 billion decline in FY 1994.
 - The Office of Management and Budget estimates the structural deficit by subtracting from the consolidated deficit the estimated cyclical portion of the deficit. In addition, OMB also deducts the net outlays for deposit insurance in order to derive an adjusted structural deficit.
 - The 1992 and 1993 budgets contained estimates of the adjusted structural deficit -- the actual deficit adjusted to remove a cyclical component and outlays and receipts for deposit insurance. The

estimated cyclical components, however, were estimated quite differently for the 1992 budget and for the 1993 budget; the cyclical component of the 1993 budget deficit estimate in the 1992 budget was \$34 billion, while the corresponding figure in the 1993 budget increased to \$50 billion. At the same time, the adjusted structural deficit for FY 1993 increased from \$124 billion in the 1992 budget to \$227 billion in 1993. The changes in estimating methodology between the two budgets include: a change in the high employment benchmark period (from 1988Q4 to 1990Q3); the benchmark changes associated with the shift from use of GNP to GDP and the rebasing from constant 1982 dollars to constant 1987 dollars; plus a significant shift in the base economic forecast between January 1991 and January 1992 (with a consequent implicit shift in potential GNP/GDP).

- In addition, Treasury significantly reestimated the yield of the Federal tax system between the 1992 and 1993 budgets, substantially changing the estimated level of the structural deficit (and, to a lesser extent, the cyclical component). Thus, the 1992 and 1993 budget structural deficit estimates, while each internally consistent over a period of years out to 1996 and 1997, respectively, should not be compared to each other in an effort to discern a progression of change in the structural deficit outlook over time.

Revenue Developments

The President's Mid-Session Review of the budget for FY 1993 projects revenues of \$1,162.9 billion, an increase of \$87.2 billion (8.1 percent) over FY 1992. Of the total:

- o \$507.0 billion (44 percent) is expected from individual income taxes;
- o \$444.5 billion (38 percent) is expected from social insurance taxes;
- o \$112.2 billion (10 percent) is expected from corporate income taxes;
- o \$48.0 billion (4 percent) is expected from excise taxes;
- o \$51.3 billion (4 percent) is expected from other taxes, fees, and receipts.

On March 20, 1992 the President vetoed "The Tax Fairness and Economic Incentives Act of 1992" because it included a number of tax increases. Although this action may have introduced some delay, both the House and the Senate budget legislation for FY 1993 project revenues quite close to the President's budget estimates.

Progress on Budget Process Reforms

The Omnibus Budget Reconciliation Act of 1990

- o The budget agreement which was codified in OBRA90, was designed to reduce the budget deficits by \$485.2 billion over the five years ending with FY 1995 relative to what they were projected to be in the absence of OBRA90. Of this amount,
 - \$151.3 billion were from receipt increases net of tax credits (\$15.2 billion);
 - \$13.1 billion were from increased user fees;
 - \$73.4 billion were from reductions in entitlements;
 - \$183.2 billion were from reductions in discretionary defense programs; and
 - \$64.2 billion were from debt service savings.

It is not possible to identify these savings explicitly in the budget numbers because the effects have been camouflaged by higher spending for certain mandatory programs and by the recession, which has had a significant negative effect on revenues.

- o OBRA90 includes a set of reforms giving the Executive Branch substantially more leverage both to set priorities and to curb future expenditures. These reforms give the Administration the means ultimately to rid the budget of deficits as had been targeted in the Gramm-Rudman-Hollings (GRH) budget law.
- o Most important perhaps for the longer run control of budget spending was the agreement to implement tougher measures of fiscal discipline consisting of pay-as-you-go control of entitlements, mandatory spending and receipts and caps on discretionary spending.
- o These fiscal measures are now effectively slowing down spending increases, although the results are currently largely camouflaged by the ballooning costs of deposit insurance and by the recession's negative effects on revenue growth and the needed expenditure for counter cyclical measures which have, in turn, increased the cyclical budget deficit.

- o OBRA90 recognizes the desirability of automatic stabilizers -- such as the reduction in revenues or rise in outlays that occur when the economy is in recession -- and does not require actions to offset such increases in the deficit as was required by GRH law.

New Constraints on Entitlements

A pay-as-you-go system for taxes and entitlement expenditures was established by OBRA90. Decreases in taxes or increases in entitlement spending must be deficit neutral -- offset by increases of other taxes or cuts in entitlement spending elsewhere.

- o New entitlement or revenue legislation in total cannot increase the deficit under OBRA90.
- o The pay-as-you-go mechanism, although similar to the old GRH law, is quicker to respond to evidence of over-spending and better targeted on the problem area.
- o OBRA90 provides for a "look-back" sequester on entitlement spending. Any legislation violating the pay-as-you-go system that adds to the deficit would trigger automatic across-the-board cuts of all non-exempt entitlement programs within 15 days of the end of the Congressional session.
- o The maximum sequester cuts for entitlements subject to such cuts for FY 1993 equals just over \$31 billion based on the February budget estimates. If a larger sequester is required, then a sequester to reduce discretionary programs would become necessary even if they themselves are below the OBRA90 imposed caps.
- o In the July, 1992 Mid-session Review, the Administration has projected total expenditures for entitlement and mandatory outlays of \$796.3 billion in FY 1993, rising to \$810.2 billion in FY 1994. Although there is a drop in these outlays to \$806.8 billion in FY 1995 they are estimated to rise to \$944.4 billion by FY 1997.
- o The Executive Branch has the final word on any violations.

Caps on Discretionary Spending

For the first time in the history of Federal budgeting, legally binding caps were placed on all discretionary spending over the five year period 1991-1995. Discretionary spending that exceeds the caps triggers an automatic across-the-board reduction (sequester) of discretionary programs.

- For FY 1991 through FY 1993, caps were imposed on each of the three categories of discretionary spending: domestic, defense and international.
- In FY 1994 and 1995 a single cap will be required on total discretionary spending.
- o The caps are adjusted annually for conceptual changes, differences between actual and projected inflation, emergencies and other factors specified in OBRA90, as determined by the Office of Management and Budget (OMB) and submitted with the President's budget.
- o The discretionary caps and the Administration estimated Mid-Session outlays for FY 1993 are as follows:
 - The defense outlay cap is \$296.8 billion and the Mid-Session estimated outlays are \$291.8 billion.
 - International outlays are capped at \$20.6 billion with budget outlays projected at \$20.5 billion.
 - Domestic discretionary outlays are capped at \$225.9 billion and budget outlays are projected at \$226.2 billion.
- o In the President's FY 1993 budget, all categories of discretionary outlays were equal to or below the caps as required by OBRA90, adjusted for allowances intended to provide a cushion for estimating differences between the Office of Management and Budget and the Congressional Budget Office.
- o Appropriations exceeding the caps trigger automatic sequesters. Briefly:
 - For regular appropriations bills, sequesters occur 15 days after the end of the Congressional session.
 - For supplemental appropriations enacted before July 1, sequesters are applied immediately after enactment (so-called "within-session sequesters"); for supplemental appropriations enacted in the last 3 months of the session (after July 1) there is a so-called "look-back" procedure which reduces the spending caps for the following year.
- o The sequester is ordered against the programs within the specific spending category that is exceeded in order to focus and target the enforcement mechanism. Across-the-board cuts apply to all programs within that category.

- o Caps can be exceeded without triggering a sequester only by legislation designated as an emergency by the President and Congress.
- o The OBRA90 requirements effectively constrained the appropriations committees last year during consideration of the FY 1992 budget. The committees could not exceed spending caps without triggering a sequester of programs within the violated category. The FY 1992 appropriations bills were enacted within the OBRA90 limits. This represents significant progress.

Changes to the Old GRH Budget Law

OBRA90 extended the old GRH budget law by replacing the old budget deficit targets under GRH (projected at zero in FY 1993) with new targets through FY 1995; and improved on GRH by placing caps on discretionary spending and imposing pay-as-you-go requirements on entitlements and mandatory spending. The old GRH targets were specified in terms of the consolidated budget deficits whereas the new OBRA90 targets, or maximum deficit amounts (MDAs), are specified in terms of on-budget deficits. The enactment of OBRA90 supports the Administration's continued efforts to reduce the federal budget deficit.

- o The deficit targets, fixed under GRH, are, under OBRA90, adjusted by OMB to account for changing economic and technical assumptions that underlie the President's annual budget submission. This change, while recognizing the desirability of automatic stabilizers especially when the economy is in recession, is not intended to weaken the commitment of the U.S. Government to eliminate the overall consolidated Federal Budget deficit. The MDA for FY 1993 originally specified in OBRA90 was \$236 billion. The "adjusted" MDA provided in the July, 1992 Mid-Session Review for FY 1993 is \$418.5 billion, while the corresponding deficit for FY 1993 is estimated at \$402.2 billion, thereby avoiding a sequester.
- o The amount the deficit targets can be exceeded without triggering a sequester is set at zero for FY 1993 by OBRA90. This amount, however, has been raised from \$10 billion allowed under the old GRH law to \$15 billion for FY 1994 and FY 1995 under OBRA90.

Adjusting Deficit Targets

Maximum deficit amounts (MDA) under OBRA90 are adjusted at the time the President submits his budget. The adjustments are to be made only for up-to-date re-estimates of economic and technical assumptions and any changes in concepts or definitions, and adjustments to the discretionary caps.

- o For FY 1991 through FY 1993, the President must submit the re-estimates with his annual budgets.

- o For FY 1994 and FY 1995, the President has the option of choosing to make such adjustments at the time he submits his budget to the Congress for those fiscal years. If he chooses not to make the adjustments for all programs, then the MDAs estimated in the previous budget submission would be updated only for reestimates of deposit insurance outlays and the adjustments to the discretionary caps, leaving unadjusted only receipts and mandatory spending.
- o For each fiscal year, the adjustments required to be made with the submission of the President's budget for the year have to be updated when OMB submits the sequestration update report and reestimated again for the final sequestration report for that year. But OMB must otherwise continue to use the economic and technical assumptions in the President's budget for that year.

Consistent Economic Assumptions

OBRA90 requires the economic assumptions used for the President's budget must be used throughout the fiscal year by the Administration and the Congress. This change has the distinct advantage of providing only one reference or baseline from which proposed receipts and outlay changes are to be measured.

Sequestration Suspension in the Event of Low Growth or War

The budget enforcement procedures can be suspended in the event of war or low growth. If the Department of Commerce reports actual real economic growth for each of the two most recently reported quarters is below one percent, or if CBO or OMB project negative real growth in two consecutive quarters, then the Congress automatically votes on a joint resolution suspending the OBRA90 enforcement procedures. The procedures are suspended if the President signs the joint resolution. It should be noted that, although the 1990-91 recession met these conditions, the Congress disapproved suspending the rules. Refraining from suspending OBRA90 in a recession demonstrates the commitment of the Congress and the President to bringing down the deficits.

Scorekeeping Authority

OBRA90 gives OMB the final scorekeeping authority related to all budget enforcement actions. Comments are welcome from all interested parties during the comment period.

- o As soon as possible after Congress completes action on any appropriation, direct spending or receipts legislation, CBO provides OMB its estimate of budget authority and outlays and OMB transmits its own estimates along with the COB estimates to the Congress with an explanation of any differences.

- o The same procedure essentially is in place for any look-back that may need to take place within the 15 days after Congress adjourns.

This shift in scorekeeping authority, though a subtle reform, could have very significant ramifications for the President's ability to affect the budgeting process and to bring about deficit reduction. It vests with the President enforcement powers that are different, and possibly more potent, than those described in the SII Joint Report.

Scoring of Credit Programs

An important scoring change of the 1990 Budget was the Credit Reform Act which introduced very significant reforms in the budgetary treatment of Federal credit programs. These reforms had been pursued unsuccessfully by different Administrations since 1967, when the President's Commission on Budget Concepts made recommendations which now, for the most part, have finally been adopted. Under the reforms, the costs of Federal credit programs are measured more accurately, and these programs have been put on a budget scoring basis equivalent to other Federal spending. This requires appropriations to cover the subsidy cost of all Federal direct loans and all loan guarantees when they are made. This removes the incentive to provide Federal benefits through implicit subsidies embedded in Federal loans and loan guarantees rather than through direct appropriations, even when the Federal credit program might cost more in the long run. The reform therefore encourages fiscal restraint and definition of spending priorities.

Protecting Social Security Surpluses

OBRA90 revised the definition of the old GRH deficit targets to exclude the retirement and disability part (OASDI) of the U.S. Social Security System. The social security surpluses (including interest) are not counted in the new maximum deficit amounts specified in terms of on-budget deficits. Once the targeted on-budget totals are balanced, the consolidated budget will be in surplus, reducing the government's outstanding debt held by the public by the approximate amount of the social security surplus.

- o These revisions to the budgetary treatment of social security are similar in effect to the Social Security Integrity and Debt Reduction Fund, as proposed by the President in his FY 1991 budget (and described in the SII Joint Report).
- o In order not to erode social security surpluses in the future, provisions in OBRA90 were adopted which would make it difficult for the Congress to increase benefits or reduce social security taxes.
 - A point of order must be overcome, in either the House or the Senate, before any legislation can be considered that either increases OASDI benefits without offsetting increases in OASDI taxes, or reduces OASDI taxes without offsetting reductions in benefits. A "super-

majority" of 60 votes would be required to overcome a point of order in the Senate.

- The offsets must be such that the OASDI Trust Fund remains both in short-term (5-year) and long-term (75-year) actuarial balance, thus maintaining the OASDI Trust Fund build-up.
- o The Administration is opposed to proposals, such as lowering the payroll tax rate, that would reduce or eliminate the OASDI Trust Fund build-up.
 - Such a proposal was introduced last year in the Senate and was defeated by a large majority. It may be resubmitted this year.

I.B Financial Safety and Soundness

- o The FDIC Improvement Act of 1991 establishes a number of reforms in the U.S. banking system. It prohibits all but the most strongly capitalized banks from offering above market rates on insured deposits and requires the FDIC to institute a risk-based premium system. In addition, it limits the FDIC's ability to protect insured depositors and constrains the Federal Reserve's use of its lending authority to keep failing banks in operation.
- o Government Sponsored Enterprises (GSEs) legislation, designed to institute regulations and supervisory controls to address financial safety and soundness, is at different stages of the legislative process. Status:
 - Farmer Mac legislation was enacted in December 1991;

The legislation clarifies the authority of the Federal regulatory Farmer Mac provides for enhanced capital standards, including minimum capital standards and use of a stress test for determination of Farmer Mac's risk-based capital requirement.
 - Sallie Mae legislation is still pending in both the House and the Senate;

The Administration's proposal creates a regulator within the Treasury Department and provides for enhanced, risk-based capital standards, including minimum capital standards and intervention by the regulator at present levels of capital.
 - Fannie Mae and Freddie Mac legislation passed in the House and is pending in the Senate.

The Administration's proposal provides for enhanced, risk-based capital standards, including minimum standards and intervention at present levels, and establishes as regulator a separate office within the Department of Housing and Urban Affairs.

I.C Progress on Incentives to Save and Invest

Enhancing Saving

The Administration is working to promote private saving. It strongly supports the measures to promote saving described in the SII Joint Report and proposed the initiatives in the President's FY 1993 Budget.

Proposals Designed to Increase Investment

- o Lower Capital Gains Tax Rates. The Administration has proposed lowering the effective tax rates on capital gains. The proposal would induce more savings and investment by raising after-tax rates of return, especially for longer-term investment.
 - In 1994, when fully phased-in, the exclusion on capital gains would be 45 percent for assets held more than three years, 30 percent for assets held between two and three years, and 15 percent for assets held between one and two years.
 - Thus, for a taxpayer currently subject to a 28 percent statutory tax rate on sale of a capital asset, the effective tax rate would be 15.4 percent, 19.6 percent, and 23.8 percent, respectively.
 - For dispositions after February 1 but before January 1, 1993, the full 45 percent exclusion applies. For dispositions in 1993, the 45 percent applies to assets held more than two years, and the 30 percent exclusion applies for assets held between one and two years.
 - Depreciation deductions would be recaptured in full as ordinary income. Excluded gains, other than those attributable to sale of real estate or interests in closely held businesses, are included in the alternative minimum tax.
- o Extend Research and Experimentation (R&E) Tax Credit. The Administration proposes a permanent extension of the 20 percent incremental R&E tax credit, which expired on June 30, 1992, but is expected to be extended and made retroactive before Congress adjourns.

- o Extend Research and Experimentation (R&E) Allocation Rules. The Administration proposes to extend through 1993 the current R&E allocation rules, which expired on June 30, 1992, but are expected to be extended and made retroactive before Congress adjourns.
 - These rules allow U.S. companies with foreign operations to allocate 64 percent of their domestic R&E expenditures to domestic source income, with the balance to be allocated between domestic and foreign source income based on gross sales or (within certain limits) to gross income.
 - Corresponding rules apply to the allocation of foreign R&E expenditures.

- o Establish Flexible Individual Retirement Accounts (FIRAs). The Administration has proposed the introduction of flexible Individual Retirement Accounts which would stimulate private saving by allowing tax-free earnings on contributions to these accounts.
 - Individuals would be able to make non-deductible contributions of up to \$2,500 per year (\$5,000 per family), provided the taxpayer's adjusted gross income (AGI) is less than \$60,000 per year (less than \$100,000 for heads of households and \$120,000 for married couples filing a joint return).
 - Contributions to FIRAs would be allowed in addition to contributions to qualified pension plans, IRAs, 401(k) plans, and other tax-favored forms of saving.
 - Earnings on contributions retained in the FIRA for at least seven years would be eligible for full tax exemption upon withdrawal. Withdrawals of earnings allocable to contributions retained in the FIRA from three to seven years would be subject only to income tax, while contributions retained for less than three years would be subject to both income tax and a 10 percent penalty.
 - This proposal is very similar to the one made by the Administration to establish Family Savings Accounts (FSA). One difference is that under the current proposal, amounts in existing IRAs (with some exceptions) may be contributed to a FIRA between February 1 and December 31, 1992; the amounts so contributed would be included in income ratably over four years. Such "rollovers" were not allowed under the FSA proposal. A second difference is the current proposal would broaden the eligibility for those who may make contributions to include single

taxpayers with adjusted gross incomes of less than \$60,000 as compared with \$35,000 under the proposal last year.

- o Extend The Low-Income Housing Tax Credit, The Targeted Jobs Credit, And The Business Energy Tax Credit. The Administration expects to get these credits, which expired on June 30, 1992, extended through 1993. These credits should encourage investment in low-income housing and renewable energy sources, and encourage business to hire workers who may not otherwise find employment.

Treasury's Corporate and Individual Tax Integration Study.

- o Treasury issued its study of comprehensive business tax integration on January 6, 1992. The study outlined options designed to overcome four problems:
 - Achieving greater uniformity of the tax treatment of investment across economic sectors.
 - Achieving a more uniform treatment of debt and equity.
 - Minimizing distortion of the choice between retaining profits and paying them out as dividends.
 - Taxing investment income once instead of two or more times.
- o The main options examined included:
 - Exempt dividends from the recipient's income taxes.
 - Accomplishes many of the goals of integration without a major overhaul of the system.
 - Would cost an estimated \$13.1. billion per year in revenues.
 - Tax both corporations and non-corporate businesses on profits before payment of dividends or interest and stop taxing recipients on dividends, capital gains, or interest income.
 - Accomplishes virtually all of the goals of integration.
 - Would raise revenues by an estimated \$3.2 billion.
 - Would be a major overhaul of the tax system and require perhaps as much as a 10-year phase-in.

- Apportion each corporation's income to its shareholders to be included in their taxable income, and give them credit for any taxes paid by the corporation.
 - Accomplishes most of the goals of business tax integration.
 - Involves complications with foreign-source income.
 - Has been criticized as an unwieldy alternative.
- o The study is expected to encourage discussion of the incentives built into the current tax system as they affect investment. However, no specific proposal has been endorsed by the Administration and no legislative initiative concerning tax integration is expected to be sent to Congress during this session.

New Commitments

Long-Term Policy Agenda

President Bush has highlighted, both in his January 1992 State of the Union Address and his Fiscal Year 1993 Budget submitted to the Congress, a multidimensional long-term policy agenda to enhance economic growth. The agenda is the product of an intensive policy review undertaken by the Administration, including evaluations of both the state of the economy and its direction.

The growth agenda is composed of a number of long-term policy initiatives to which the Administration is committed. The major elements listed below are designed to generate more saving and investment, accelerate productivity growth, increase output and employment, and foster a higher standard of living in this country.

The Administration is working with business and public organizations to develop broad-based support for its growth agenda. The USG will recommend and promote legislation, where necessary, for:

- o Sustained efforts to promote international trade, investment, and competitiveness through:
 - continued efforts to bring about a successful conclusion to the GATT negotiations;
 - negotiations to establish a North American Free Trade Agreement;
 - Enterprise for the Americas Initiative; and

- continued bilateral efforts to open markets for U.S. exports.
- o Tax incentives to promote saving and investment.
- o Spending restraint that conforms to pay-as-you-go budgeting and other requirements of OBRA90 and new initiatives restraining the growth of entitlements and mandatory budget expenditures.
- o Investment in public infrastructure.
- o A thorough review and culling of unnecessary regulatory activities.
- o Comprehensive reforms to strengthen the education system, reform health care, reduce costly legal impediments to efficient commerce and trade, and reduce energy vulnerability.

In developing policies designed to strengthen the competitiveness of the U.S. economy, the United States reiterates the importance of taking a long-term perspective, of ensuring consistency, and of seeking wide public support. The U.S. Government identifies key elements in its long term policy objectives:

- o education and training
- o measures to encourage saving and investment in plant and machinery
- o research and development and policies toward development and commercialization of technology, and
- o export promotion

The U.S. Government urges an open, international, and long-term orientation by U.S. business.

Entitlements Caps

Although OBRA90 constrains proliferation of new entitlements and mandatory programs, there is no current provision for a direct constraint on the growth in outlays for current entitlements and mandatory programs such as food stamps, Medicaid or the Commodity Credit Corporation (CCC) subsidies.

The President's determination to reduce the deficit problem has been addressed by a new initiative proposed in his FY 1993 Budget to cap the growth of all entitlements and mandatory programs, in addition to his proposals to bring better cost control or outright spending reductions to specific programs. The initiative would:

- o Set a cap on "mandatory" program growth in the aggregate;
- o Lower the cap following the enactment of comprehensive health reform;
- o Allow the growth rates of entitlements and other mandatory programs to be adjusted by a maximum of population-plus-Consumer Price Index (CPI) plus an additional annual growth of 2 percent to allow for an orderly transition in the first year and 1 percent in the second.
- o Require any projected growth beyond the mandatory cap would trigger the legislative reconciliation process in order to pare the excess spending growth; and
- o Provide a fail-safe mechanism by modifying the pay-as-you-go system so any uncorrected breach of the mandatory cap automatically triggers the sequester provisions for the mandatory programs under OBRA90 while exempting Social Security from any potential sequester.

The House of Representatives' Budget Committee has endorsed the idea of an "entitlement cost cap", and the Congress is taking it under consideration.

Budgeting for Deposit and Pension Insurance

For most Federal spending programs, the cash-based budget provides good measures of the costs incurred by the Government. This is not the case for insurance programs such as deposit insurance or pension guarantees. To improve the accountability and control of the ultimate costs of these programs to the Government the Administration is seeking, in a FY 1993 Budget proposal, to shift the accounting for insurance programs from a cash basis to an accrual basis similar in concept as already used with the credit programs.

Regulatory Budget

Private expenditures to meet regulatory requirements have many of the same effects as direct Federal budget outlays. Both regulation and budget outlays divert private resources to public purposes. A fully-developed regulatory budget process would involve the President and the Congress in setting overall goals, ceilings, and allocations for the costs of regulation to the private sector, in the same way the current Federal budget allocates direct Government spending. Small scale pilot test applications at the agency level have been successful. As experience is gained it may be applied more broadly and evolve toward a fully integrated budget including regulatory cost estimates and deficit calculations.

Technical Improvements to OBRA90's Budget Enforcement Provisions

The FY 1993 Budget proposed several changes needed to further strengthen the budget process.

- o Extend OBRA90's deficit reduction and enforcement procedures until the budget is in balance.
- o Enact limits on total federal direct loans, loan guarantees, and on the cumulative total of related subsidies.
- o With the exception of Social Security, eliminate or more severely limit most exemptions from sequestration.

Private Sector: Incentives to Save and Invest

The Administration is committed to achieving enactment of its proposals for responsible changes in the tax system to encourage saving and investment. These proposals include:

- o a reduction in the effective tax rates on capital gains;
- o an investment tax allowance which permits an additional 15 percent of the cost of an investment asset to be recovered in the first year;
- o enactment of an Individual Retirement Account that would waive the penalty for premature withdrawals to pay for medical and educational expenses and for early withdrawals for first-time homebuyers;
- o enactment of a Flexible Individual Retirement Account (FIRA), where, unlike the current-law deductible IRAs, the contributions are not tax deductible but if retained for a specified number of years neither the contributions nor the earnings on the contributions invested would be taxed when withdrawn;
- o permanent extension of the Research and Experimentation (R&E) tax credit; and
- o the establishment of enterprise zones designed to create jobs in economically disadvantaged areas.

II. Investment Activities and Supply Capacity: Improvement of U.S. Competitiveness

II.A Antitrust Reform

Production Joint Ventures

The Administration has been actively encouraging the enactment of legislation that would improve the legal climate for joint production ventures and reduce uncertainty about the treatment of such ventures under the antitrust laws.

- o The Administration's proposal would extend the coverage of the National Cooperative Research Act to joint production ventures. Courts reviewing antitrust challenges to particular joint production ventures would be required to take into account the potential competitive benefits of such ventures. Any antitrust liability would be limited to actual, rather than treble, damages where the parties to the venture notify the antitrust enforcement agencies of their activities.
- o The Administration's efforts have resulted in substantial progress. Legislation similar to the Administration's proposal was passed by the Senate (S. 479) in February 1992. The House bill, H.R. 1604 was voted out of committee in June 1991 and is awaiting floor action.
- o The Administration will actively encourage early enactment of this legislation and is optimistic legislation will be enacted this year.
- o Upon enactment of this legislation, all stages of joint production -- from the beginning stage of joint R&D activities to the final stage of joint production -- would be covered by the 1984 National Cooperative Research Act, as amended. United States Government guidelines, either those in effect or those to be issued within a reasonable period of time after such enactment, will clarify the treatment of joint research and production activities under the antitrust laws. The United States Government would welcome comment on the scope and content of such guidelines.

Nondiscriminatory Enforcement

The Administration affirms its continuing commitment to nondiscriminatory enforcement of the U.S. antitrust laws.

II.B Product Liability Reform

Product Liability reform remains one of the high priorities of the USG.

- o The Administration strongly supports the proposed Product Liability Fairness Act that would reform the U.S. product liability system and heighten U.S. products' competitiveness. The proposed bipartisan product liability reform bill, with over 30 co-sponsors, has been recommended for enactment by the Senate Commerce Committee.
- o The Commerce Secretary testified before the Congress in support of the proposed Act. The Administration will continue to work with the Congress for the passage of a product liability reform bill.

II.C Policy Toward Direct Foreign Investment

On December 26, 1991, the President issued a policy statement strongly reaffirming U.S. support for open and free foreign direct investment among all nations. This applies to foreign investors in the United States and to U.S. investors in other nations. In line with this policy, the United States is seeking to liberalize investment regimes in other nations, both in practice and in law. Direct foreign investment stimulates companies to be more competitive, which can generate exports and promote growth.

- o The President's statement was in fulfillment of the United States' SII commitment to provide a detailed policy statement with regard to direct foreign investment.
- o It reiterated that the United States' open investment policy is based on the principle of national treatment. The United States provides foreign investors fair, equitable, and non-discriminatory treatment.
- o The United States believes that U.S. investment abroad should similarly receive non-discriminatory treatment. U.S. investors should receive the most favorable treatment available to any investor, whether foreign or domestic, at the time of establishment and in the conduct of business.
- o The President's statement pointed out that as other nations embrace free markets, openness to foreign direct investment is an essential contributor to world growth and prosperity. Accordingly, the United States will continue to encourage all nations to open their investment regimes to enhance economic health and diminish distortions in an integrated world economy.

- o The United States maintains a few exceptions to national treatment for foreign investors. These exceptions are generally related to national security, and affect certain sectors, such as atomic energy, air and water transport, and telecommunications. This policy is consistent with our commitments in the OECD, our treaties of Friendship, Commerce and Navigation and with the provisions of Exon-Florio.
- o The Department of the Treasury published final Exon-Florio implementing regulations in the Federal Register on November 21, 1991. The final regulations took into account comments received from all affected sectors as well as accumulated experience in implementing the provision.
- o The key characteristics of the final regulations are:
 - Filing an Exon-Florio notification of a proposed or pending acquisition is voluntary.
 - Foreign control is defined functionally, rather than through an arbitrary rule based, for example, on percentage of stock ownership.
 - The procedures provide sufficient basis for governmental review of transactions with the private sector.
- o As of mid-March 1992, 687 transactions had been reviewed under Exon-Florio procedures; thirteen were the subject of a formal investigation and nine of those were referred to the President for decision (four were withdrawn). The President has prohibited one transaction.
- o The Administration continues to oppose legislation which would not be consistent with the United States' policy of open foreign direct investment. For example, the President's senior advisors have advised the Congress that they would recommend he veto the Technology Preservation Act, a bill which would change implementation of the Exon-Florio provision in a manner that would adversely alter the balance between U.S. investment policy and national security.

II.D Developments in the Tax Treatment of Foreign Investors

- o The United States and Japan have entered into a bilateral income tax treaty that provides the type of non-discriminatory tax treatment traditionally found in such agreements.
- o In June, 1991, Treasury issued final regulations under section 6038A of the Internal Revenue Code to implement new compliance measures

imposed to ensure comparable access to information in audits of both foreign- and U.S.-owned corporations.

- In 1989, Congress determined that the current compliance and record maintenance provisions were inadequate to provide the information needed in this area. As a result, the Revenue Reconciliation Act of 1989 substantially amended Code section 6038A, introducing four statutory enhancements.
- The threshold for information reporting for foreign-owned companies was reduced to apply to any U.S. corporate taxpayers that are at least 25 percent-owned by a foreign person.
- Records documenting the U.S. tax treatment of related party transactions are required to be maintained in the manner and in the location prescribed by regulations.
- The foreign related party is required to appoint the U.S. subsidiary as its limited agent solely for IRS summons enforcement purposes.
- Penalties are provided for non-compliance with the above rules. In particular, where the IRS is denied access to relevant records, it is granted broad discretion (subject to judicial review) to set appropriate transfer prices for the related parties.
- Foreign subsidiaries of U.S. corporations are subject to stringent annual reporting provisions which in many ways exceed the requirements imposed on foreign-owned corporations. Form 5471 (which must be filed each year for every foreign subsidiary to meet the reporting requirements of section 6038) contains twenty pages of questions, schedules, worksheets and instructions. In contrast, Form 5472 (which is used to report related party transactions by foreign-owned corporations under section 6038A) requires only half a page of questions and one page of instructions. The new compliance measures must be viewed in this context of the different reporting rules, information production requirements, and enforcement procedures applicable to U.S. and foreign corporations.
- The regulations which implement these provisions generally apply the same requirements that are imposed on all U.S. taxpayers by Code section 6001. Accordingly, the record-keeping requirements imposed on foreign-owned corporations are substantially similar to those on U.S.-owned domestic corporations. In addition, several procedural protections and safe harbors were added by the final regulations. For

example, all but the largest 10 percent of corporations as well as corporations with low levels of foreign related party transactions are exempted from the record maintenance and summons appointment requirements.

- o The Administration will continue to seek to ensure, in the application of these regulations to actual cases, Japanese investors will be given non-discriminatory treatment under the U.S.-Japan Income Tax Treaty.

II.E Other Measures to Build Supply Capacity

- o The President's Council on Competitiveness, chaired by the Vice President, continues to seek ways to relieve the burden imposed on the nation's economy by unnecessary regulation.
- o In its Report on National Biotechnology Policy, the Council on Competitiveness describes the competitive status of the U.S. biotechnology industry and outlines the Administration's policy to support free market development of biotechnology products. This includes efforts to:
 - ensure regulations and guidelines affecting biotechnology are based solely on the potential risks and are carefully constructed and monitored to avoid excessive restrictions that curtail the benefits of biotechnology to society;
 - continue to oppose fundamental legislative changes to the Orphan Drug Program that undermine the economic incentives to produce new drugs for rare diseases;
 - support passage of legislation to provide necessary process patent protection for products, such as those in the biotechnology area, which can be protected only through process patents.
 - The Administration has issued government-wide guidance that will reduce the regulatory costs of developing and marketing innovative biotechnology technology products and help the industry maintain competitive edge.

New Commitments

Regulated Industries

The Administration is committed to eliminating or narrowing unnecessary government regulations, which impose needless costs on consumers and substantially impede economic growth.

- o To this end, the Administration in March 1992 transmitted to Congress proposed legislation -- the "Interstate Commerce Commission Sunset Act of 1992" -- that would eliminate all Interstate Commerce Commission regulation of interstate trucking, intercity bus service, household goods freight forwarder, freight broker, domestic water carrier, interstate rail passenger carrier, ferry service and ICC-regulated pipeline industries. This bill was introduced in the House of Representatives as H.R. 4703.
- o This legislation would eliminate all grants of antitrust immunity, including antitrust immunity for collective ratemaking, in all of these industries. In addition, the legislation would subject all mergers, acquisitions, corporate interlocks and agreements among common carriers to the full operation of the antitrust laws. Rail rate agreements, pooling arrangements and mergers would also be made fully subject to the antitrust laws.
- o On March 31, 1992, the Secretary of Transportation testified in support of this proposed legislation before a subcommittee of the House Committee on Public Works and Transportation. The Administration will continue making efforts to obtain early passage of this legislation.

Product Liability Reform

The Administration will work closely with the Congress to take legislative measures for the improvement of the product liability system, in the belief that product liability reform can improve the international competitive position of U.S. companies.

- o President Bush is fully committed to these efforts and has stated, "A legislative priority for our Administration will be the reform of our costly product liability laws. The burden of our present product liability system is excessive and adversely affects our ability to compete abroad."
- o The USG commits to expedite the passage of the Product Liability Fairness Act, introduced by Senator Kasten, during the 102nd Congress by working closely with the Congress. The bill would contribute to uniformity in all 50 states and limit damage awards.
- o It is designed to restore basic principles of fairness: adequate compensation for accident victims, fault-based liability, expedited settlements and alternative dispute resolution procedures. While the bill does not explicitly define "fault-based" liability, it does attempt to bring predictability and certainty to the product liability system by providing for liability for non-economic damages based on percentage of responsibility, seller's responsibility based on failure to exercise reasonable care, and standards for punitive damages.

- o The result would be to cut down on excessive litigation and the cost of doing business in the U.S. It would also lessen disincentives to develop new products and other innovations.
- o S. 640, if passed, would supersede state laws in areas the bill addresses, thus adding consistency to the U.S. product liability system. Moreover, the bill is non-discriminatory, as it would treat equally all plaintiffs and defendants subject to the jurisdiction of the United States. For example, the bar on joint liability for non-economic damages, the standard for the award for punitive damages, and the expedited claims settlement procedures, among others, apply to all plaintiffs and defendants that are subject to the bill's requirements.
- o The Federal government published the 1979 Model-Integrated Bill to serve as a guide for states to follow in reforming their product liability laws. This model bill does not mandate states to adopt new procedures; it instead puts forth the suggestions for states to streamline and improve upon the tort procedures governing these laws.
- o All states have in force their own product liability laws and procedures; however, since manufacturers and retailers operate on an interstate basis, the Administration endorses Federal legislation that brings some uniformity to the laws.
- o The pending Product Liability Fairness Act will incorporate some of the fundamental concepts introduced in the 1979 Model Integrated Bill. The Administration will work to fulfill the 1979 Model-Integrated Bill's objectives of eliminating the burden of excessive product liability and increasing U.S. competitiveness.

National Energy Strategy (NES)

Energy cost, availability, and efficient utilization are key factors in determining the competitiveness of U.S. business. While the U.S. is, relatively speaking, blessed in the availability of domestic energy resources and the efficiency of its energy markets, a growing proportion of its energy needs are being met through imports and a number of impediments remain in the way of attaining maximum energy efficiency.

In early 1991 President Bush proposed to the Congress a National Energy Strategy (NES) designed to reduce the range of institutional and regulatory barriers hindering the best use of the nation's energy resources. With increased dependency on imported oil, the objective is to become less vulnerable to major shifts in the supply or price of oil without incurring unacceptable social costs or interfering with economic performance. The NES addresses these issues with proposals to:

- o Enhance greater efficiency and competition throughout the energy sector;
- o Expand fuel and technology choices;
- o Improve research, development, and educational efforts; and
- o Expand the United States' leadership in shaping world responses to energy and related environmental issues.

In the 14 months since the NES was announced by the President, the Administration has implemented more than 90 of the NES-specific initiatives not requiring statutory action and has sent to the Congress legislation to implement the initiatives requiring a change in the law or new law. Both houses of Congress have now passed comprehensive energy bills. The Senate passed legislation which effectively meets the President's requirements and the Administration is currently working with the Congress to produce a bill in the House/Senate conference acceptable to the House of Representatives as well.

Examples of some of the actions the NES has engendered to date include:

- o Increasing efficiency in electricity generation and use by allowing builders of power plants to own and operate facilities in more than one area;
- o Increasing commercial and residential energy efficiency through expanded research and development, and more immediate activities such as identifying public housing projects where significant savings can be achieved;
- o Increasing industrial energy efficiency through expanded energy use audit programs and examination of regulatory policies;
- o Increasing transportation energy efficiency by accelerating scrappage of older cars and developing advanced technologies; and
- o Encouraging the use of alternative transportation fuels such as natural gas and electricity in vehicles; and
- o Facilitating environmentally responsible development of potentially major sources of domestic oil and gas production.

Health Care Reform

The U.S. health care system is in need of reform. In February, 1992, the President's commitment to dealing with the problem was expressed in his proposed blueprint for comprehensive health care reform. The proposal included provisions for addressing insurance market reforms, universal access, cost containment, administrative cost reforms,

and improved consumer information. Reform in this area is crucial to controlling medical costs and protecting the competitiveness of U.S. firms.

The major components of the President's health insurance market reform proposal are:

- o Employer-sponsored health insurance coverage will be guaranteed renewable, and pre-existing condition limits will be eliminated. Thus, workers would be able to change jobs without fear of losing their insurance coverage, increasing the efficiency of labor markets.
- o Insurers will participate in broad risk-pooling arrangements in order to assist in spreading health risks across insurers, allowing more uniform insurance premium rates.
- o Small companies will be able to pool their insurance purchasing power, giving them some of the same advantages as large employers.
- o Malpractice insurance reform will reduce costs by lowering premiums and decreasing the need for unnecessary "defensive" tests.
- o A streamlined administrative system will lower overhead costs.

A health care reform bill that embodies these principles has been introduced in Congress and was endorsed by the President on July 2. This bill will advance the realization of the goals set out in the President's February 1992 blueprint.

Two fundamental problems plague the U. S. health care system, a rapid growth in health care expenditures and the lack of universal health insurance coverage (about 15% of the population is not covered). The President's plan is intended to address these problems by building on the strengths of the existing market-oriented system.

The Administration's reform program is one of several approaches under consideration by the Congress. Our expectation is that the President's approach will ultimately form the basis for reform and result in significant cost reductions in the U.S. health care system. The Administration will make best efforts to develop a national consensus around this approach so that reform will be in place and substantial cost saving will be achieved as soon as possible.

Civil Justice Reform

- o The American system of civil justice is one of the cornerstones of our free and democratic society. This system protects the individual's rights to life, liberty and property by providing all citizens an opportunity to be heard in an impartial court of law.
- o The Administration is committed to protecting and enhancing every citizen's access to the courts by reducing the costs and delays in our legal system. Litigation expenses -- both time and money -- are transaction costs that ultimately are passed on to consumers. A legal system with unnecessarily high costs also affects the competitiveness of American firms in the global marketplace.
- o Based on studies by the President's Council on Competitiveness, chaired by Vice President Quayle, the Administration has published a report, Agenda for Civil Justice Reform in America. Civil justice reform is one of five key ways that the Administration has proposed to keep the country forward-looking and future-oriented.
- o Effective reform will require action on many levels: federal legislation, executive branch action, federal rules changes, and model state law packages. The Administration is in the process of implementing its reform package.
- o On October 23, 1991, the President issued Executive Order 12778, which put the United States Government itself in the lead in implementing civil justice reform. The Executive Order directs all Federal agencies to implement unilaterally a number of specific reforms to streamline civil litigation initiated by the U.S. Government.
- o On February 4, 1992, the Administration transmitted to Congress the "Access to Justice Act of 1992." The Act, which is currently pending in the House and Senate, would
 - provide alternatives to litigation through a multi-door courthouse plan;
 - require losing parties to pay legal fees in federal court diversity cases;
 - encourage pre-trial settlements by requiring pre-complaint notice; and
 - promote swifter case handling by encouraging better case and docket management.

- o The Administration intends to work toward obtaining enactment of this legislation at the earliest possible time. High level officials of the Administration, including the Solicitor General, have briefed Congressional staff on the need for civil justice reform. The Administration has also encouraged the relevant Congressional committees, through the sponsors of the legislation, to hold hearings on the bill during this session of Congress. The Administration will continue to work to encourage consideration of the legislation during this Congressional session.
- o The Administration has also proposed changes in the Federal Rules of Civil Procedure, Federal Rules of Evidence and the Federal Rules of Appellate Procedure that will address discovery abuse, expert evidence reform, encouragement of settlement alternatives and strengthened sanctions against frivolous lawsuits. These proposals are currently before the Judicial Conference and its relevant committees.
- o On June 17-19, 1992, the Standing Committee to the Judicial Conference met and approved several of the amendments to the Federal Rules of Civil Procedure supported by the Administration that were proposed by the Advisory Committee on Civil Rules. At that time, the Standing Committee forwarded a set of rule changes to the Judicial Conference for review. The Judicial Conference is scheduled to meet in September 1992 and, to the extent that it recommends the rule changes, it will forward them to the United States Supreme Court, for approval. Any rule changes approved by the Supreme Court and forwarded to the Congress by May 1, 1993 will become effective December 1, 1993 unless the Congress affirmatively disapproves or amends them.
- o The Administration, through its participation on the relevant committees of the Judicial Conference, has encouraged, and will continue to encourage, adoption of its proposed rule changes. It expects that by May 1, 1993 Federal Rules changes will be submitted to Congress for consideration.
- o In an effort to encourage civil justice reform at the state level, Vice President Quayle on February 13, 1992 presented the Civil Justice Reform Model State Amendments. These Amendments, which include both model legislation and model rules of procedure and evidence, implement the recommendations of the Council on Competitiveness with respect to litigation under state law. Particularly noteworthy is the Model State Punitive Damages Act, also released on February 13, 1992, which presents a six-part proposal for punitive damages reform at the state level.
- o The Administration is actively assisting the states in their consideration of possible adoption of these model amendments. For example, the

Administration has distributed thousands of copies of the Model State Amendments and the Model State Punitive Damages Act to state legislators in every state of the country. In addition, the Vice President has held roundtable discussions on civil justice reform with leaders in more than 20 states, and expects to hold similar discussions in several other states.

- o These efforts are beginning to bear fruit. The model amendments have been introduced as bills in the legislatures of more than 20 states. The Administration will continue its efforts in order to promote prompt action on its civil justice reform initiative at the state level.
- o In the area of alternative dispute resolution (ADR) mechanisms, the Administration has long been in the forefront of efforts to improve ADR techniques. The Administrative Dispute Resolution Act, enacted in 1990, provides for the encouragement of ADR use in the administrative processes of federal agencies. It also makes it easier for agencies to settle claims under the Federal Tort Claims Act. The Attorney General has quadrupled the settlement authority of agencies with established track records of resolving claims and has promulgated new regulations to encourage ADR in federal tort claim litigation. The President's October 23, 1991 Executive Order directed the Executive Branch to use of ADR where appropriate. In this regard, extensive training seminars featuring ADR utilization have been conducted by federal officials.
- o The Administration will continue to promote the use of alternative dispute resolutions mechanisms, including through its efforts to encourage adoption of the Access to Justice Act of 1992, which would facilitate ADR through multi-door courthouse programs.
- o The Administration's civil justice reform package is intended to help ensure that deserving victims actually receive their compensation earlier and with less expense, and yet will not impair any substantive legal rights.
- o The Administration is firmly committed to pursuing civil justice reform and intends to continue its efforts to improve the competitiveness of American firms through adoption of its legislative, administrative, judicial and state-level proposals.

Foreign Direct Investment

- o The U.S. reaffirms its policy of free and open foreign direct investment among nations as contained in the President's statement of December 1991, and will continue to implement the Exon-Florio legislation in a manner consistent with that policy.

III. Corporate Behavior

The Administration continues to pursue policies to encourage managers to take decisions that will benefit their companies in the long-term thereby making them more competitive.

III.A Long-term Outlook

- o As part of the USG's ongoing efforts to promote U.S. competitiveness and to facilitate lower capital costs in the U.S., the Treasury Department reviewed factors affecting the U.S. corporate sector's investment horizons. Improving the relationship between managers and shareholders could reduce equity capital costs, thereby strengthening competitiveness.
- o In order to increase overall U.S. competitiveness, the board of directors should be strengthened by making management more accountable to the board and by making the board more accountable to shareholders.
- o Treasury officials have advocated several specific suggestions made by private sector managers. They include:
 - strengthening boards of directors by limiting membership in nomination, compensation and audit committees to non-management directors.
 - establishing executive compensation plans which are directly tied to long-term company performance.

Reform of Quarterly Reporting System

- o In the process of conducting its review of financial competitiveness, the Treasury also undertook a review of proposals to modify current quarterly reporting requirements. As an ongoing activity, Treasury undertakes to continue to review current research in this area.
- o The Administration favors current U.S. law which requires the prompt reporting to investors of material information. Quarterly reporting serves investors by requiring timely and regular reports on corporate performance. Timely and accurate disclosure contributes to fair and credible markets, thereby improving efficiency and liquidity. The U.S. investment community has expressed opposition to curtailing quarterly reporting practices.
- o The Competitiveness Policy Council is a 12-member federal advisory committee created by the Omnibus Trade and Competitiveness Act of 1990.

The legislation stated that the purpose of the Council is "to develop recommendations for national strategies and on specific policies intended to enhance the productivity and international competitiveness of United States industries."

The Council has identified corporate governance and financial markets as one priority area they intend to address. The Council believes that one national objective should be to create an environment of economic and policy stability within which managers can do what many of them already want to do -- manage the corporation for long-term growth.

The Council has recently established a subcommittee on Corporate Governance that will study the following issues:

- the degree to which long-term performance is the shared goal of both corporate managers and shareholder-owners;
 - the degree of management's accountability to owners;
 - the impact of the "short-term" signals sent by the trading practices of institutional investors and management's reaction to them;
 - the desirability of dampening current rapid stock turnover patterns;
 - the degree to which management's goals of creating shareholder value, creating corporate wealth and advancing the interests of stakeholders (including workers, suppliers and communities) conflict or harmonize with each other, and the preference for one over the other.
- o The U.S. Government will report on the subcommittee's report, scheduled for submission to the President and Congress by January 1993, at the next SII.
 - o The SEC has conducted a review of the proxy voting system. This review was in part designed to examine ways to strengthen the accountability of management to shareholders through the proxy system, and encourage a long-term outlook.

The SEC's most recent proposals, announced on June 23, 1992, directly address the long-term issue. These proposals provide shareholders with more disclosure and easier communication to hold boards of directors more accountable to shareholder interests. The purpose of the rule changes is to facilitate effective shareholder communication and participation in the corporate governance process by removing unnecessary regulatory barriers; and to reduce the costs of complying with the proxy rules.

- Also, under the proposed rule change, total shareholder return through stock price appreciation and dividends would be required to be shown for a 5-year period in a new graph. The graph would compare this performance to the performance of two separate indices -- the S&P 500 and a separate index comprised of a group of peer companies. This would allow shareholders to measure relative corporate performance. More extensive disclosure will encourage more informed voting and management accountability.
- o The Department of Labor (DOL), which oversees the regulation of private pension funds, is taking steps to ensure plan fiduciaries are properly voting their shares. Steps include:
 - DOL has initiated a project focused on the proxy voting procedures of bank trustees following on its earlier letter which articulated the responsibilities of various fiduciaries of pension plans with respect to voting of proxies.
 - DOL developed a proposal to amend "ERISA" to provide for better disclosure by plan fiduciaries with respect to proxy voting. This amendment was included in Department of Labor's enforcement legislation which was introduced at the end of 1990 and which is anticipated to be reintroduced this session.
- o The private sector is doing a great deal to strengthen management accountability to its shareholders.
 - The main impetus is coming from institutional investors, particularly public pension plans. The primary focus of these investors is to strengthen management accountability to the board of directors and to increase the board of director accountability to shareholders.
 - In the current proxy season, a number of shareholder resolutions are calling for a majority of independent outside directors or for the establishment of nominating committees composed of independent directors.
- o The Administration has worked to promote a greater long-term outlook by corporate managers through the Financing Technology Roundtables (FTR) held last year. The purpose of the FTRs was to examine ways in which the government and private sector can work together to facilitate a lower cost of capital and to facilitate long-term funding for U.S. technology.

- The Financing Technology Roundtables (FTR) consisted of three meetings held during 1991 in the United States hosted by the Department of the Treasury and the Department of Commerce. The attendees included government officials, executives of high-tech companies, managers of pension and mutual funds, venture capitalists, bankers, accountants, and members of the academic community. The goal of the meetings was to facilitate discussion and generate ideas through which the government and private sector could remove impediments to lowering the cost of capital and obtaining financing for US technology companies.
- In April 1992 a report was released outlining the findings of the meetings. The participants developed ideas and lists of possible actions, although opinions differed on the issues and the merits of various actions. Thus the report is a summary of the various participants' views and is not an empirical study with specific recommendations founded on factual data which could serve as the foundation for an action plan.
- The Financing Technology Roundtable sessions consisted of intensive discussion by participants on numerous issues. These included whether U.S. capital markets provide adequate funds for long term investments in technology needed by U.S. companies to meet global competition; an overview of the different participants in technology financing, and the changing roles of these participants; how financing issues will differ depending on the type and stage of the company -- start-up, small company, large company, family-owned or public. The participants did not reach a consensus on any of the issues discussed. The USG believes that the roundtables have served their purpose of facilitating discussions on these complex issues which would not have occurred without the formalized roundtables.
- As a result of the Financing Technology Roundtables, a number of additional actions have been initiated:
 - The Department of Commerce has printed its report summarizing the Financing Technology Roundtable discussions and has made it widely available.

- The Departments of Energy, Commerce, Transportation and NASA along with other agencies like EPA and NIH are conducting a series of regional meetings as part of the Administration's National Technology Initiative. Meetings have been held in Boston, Austin, and Orlando, and nine others are planned.
- Each of these regional meetings has a plenary session and a workshop on partnerships for long-term investment and financing technology. Local and national leaders participate in these programs, which are intended to show how U.S. companies are responding to the financial challenges of commercializing technology.

III.B Cost of Capital

- o The Treasury completed its review of the factors affecting the cost of capital. The findings of this review have been made public through speeches given by senior Treasury Department officials.
- o The Administration has taken the following measures to facilitate lower capital costs:
 - Increase Saving. To increase saving, the President has proposed flexible Individual Retirement Accounts (FIRAs) for lower and middle income taxpayers. The Administration would also promote retirement saving through a series of measures designed to encourage employers to sponsor retirement plans and simplify the taxation of pension distributions.
 - Increase U.S. Total Saving by Reducing Federal Dissaving. The Administration is continuing to adhere to the Omnibus Budget and Reconciliation Act of 1990 to reduce the Federal budget deficit.
 - Reduce the Capital Gains Tax. The President in his FY93 budget again has proposed excluding a percentage of the capital gain realized when a long-term asset is sold. Assets held three years would be entitled to a 45 percent exclusion, assets held 2-3 years would get a 30 percent exclusion and assets held 1-2 years would receive a 15 percent exclusion.

- Financial Institutions Reform. The Treasury Department completed its study of deposit insurance and has proposed comprehensive legislation aimed at reforming and improving the competitiveness of the existing U.S. banking system.

- Initiating Convergence in International Accounting and Disclosure Standards. The Securities and Exchange Commission has begun a project to examine ways in which international accounting standards might be developed which would provide for more efficient cross-border allocation of capital. The SEC has initiated discussions with various jurisdictions to develop systems for mutual acceptance of disclosure documents prepared according to regulations of an issuer's home country. Such discussions resulted in the implementation of a multi-jurisdictional disclosure system (MDJS) with Canadian regulatory authorities in the summer of 1991.

- Harmonizing State and Federal Regulations. The SEC is reviewing ways to improve harmonization between state and Federal regulations. Such harmonization would reduce capital market inefficiencies within the U.S. by reducing filing and registration costs. Specifically:
 - The SEC has worked with the states to develop a uniform form for registration.

 - The SEC is working with the Congress to develop and implement a one-stop filing system that would permit an adviser to make one filing at one location which would then automatically go to the SEC and the states in which the advisor wishes to register. Legislation is expected shortly.

New Commitments

Executive Compensation

The Administration is opposed to any direct government intervention in setting pay, and believes pay should be set by market forces. Recently, there have been developments in executive compensation reforms in a number of leading U.S. companies.

The Securities Exchange Commission (SEC) has recently announced significant regulatory initiatives designed to allow shareholders of publicly held corporations to become better informed on executive compensation matters, and to make their views on such matters known to boards of directors.

Reform 1: Allow Non-binding Shareholder Resolutions on Corporate Pay.

- The SEC altered its interpretation of "ordinary business" to allow non-binding shareholder resolutions regarding executive compensation to be included in the company's proxy statement. This change is effective immediately and affects this year's proxy proposals.
- By allowing shareholders to voice their opinions in this area, there will be enhanced accountability in the corporate governance system.
- The full effect of the SEC rule change will not be seen until next year's proxy season because the changes were implemented too late in the 1992 proxy season to affect the majority of US publicly held corporations. However, ten companies faced shareholder proposals on executive compensation in 1992 because of the SEC rule change.

Reform 2: Disclosure

- The SEC has proposed to clarify and simplify the disclosure of executive compensation. New rules would require companies to disclose options in a more understandable form. By increasing disclosure standards, the SEC is allowing shareholders to judge for themselves whether such compensation is reasonable. Under the current rules, it is difficult for shareholders to tell how much an executive is being paid. This in turn makes it difficult for the market to impose adequate discipline.
- More specifically, under the SEC's June 1992 proposed rule changes, the compensation committee of a company's board would be required to report and present the specific factors on which the executives' compensation was based. The report would also describe how compensation packages are related to company performance. This report would be presented in the proxy statement signed by the members of the compensation committee.

IV. Government Regulation

Great strides have been made since the last report to liberalize national security export controls. Multilateral and bilateral agreements reached in 1991 to streamline export controls will enhance significantly the competitiveness of U.S. high technology industry sectors without impairing U.S. national security. The liberalization of export controls achieved since the May 22, 1991, First Annual SII Report are the most dramatic since the 1949 creation of the Coordinating Committee for Multilateral Export Controls (COCOM). To strengthen the competitiveness of firms, the Administration has taken several actions to reduce the regulatory burden on the private sector.

IV.A National Security Export Deregulation

- o The May 23, 1991, COCOM liberalization agreements, which were implemented in the U.S. on September 1, 1991, resulted in a 50 percent reduction in export controls to a "Core List" of dual use goods and technologies necessary to safeguard U.S. and allied security. These initiatives further broaden the reductions in multilateral export controls on high technology items (i.e., machine tools, computers, and telecommunications) to COCOM-proscribed countries.
- o The U.S. and Japan signed a Supercomputer Control Regime Agreement in June 1991, that leaves virtually no distinction between exporting personal computers and supercomputers to Japan. (Commerce is now reviewing the possibility of eliminating prior written USG approval for exports of supercomputers to other COCOM-member countries who became supercomputer Regime members.)
- o Pursuant to the President's November 1990 directive to eliminate all dual-use export licenses that are currently required under Section 5 of the Export Administration Act to COCOM-member countries, Commerce published regulations updating General License COCOM Trade (GCT) on May 1, 1992. This substantially reduced the few remaining export controls existing for export from the United States to Japan to include only cryptographic equipment, night vision, high speed cameras, flash x-ray systems, and items on the missile technology annex.
- o The Commerce Department expanded GCT on May 21, 1991, to add exports to Austria, Finland, Ireland, and Switzerland, on October 16, 1991, to add Sweden, and on May 5, 1992, to add Hong Kong and New Zealand because of these countries' demonstrated ability to safeguard strategic goods and technology.

IV.B Progress on Removing National Security Reexport Controls

- o Regulations liberalizing reexport controls were published on May 1, 1992. These substantially reduced the few remaining controls existing for reexports of U.S.-origin items from Japan to other countries. This allows reexports of all items eligible for General License GCT, but does not include reexports to countries of proliferation concern.

IV.C Progress on Import Liberalization

Steel Trade

- o The steel Voluntary Restraint Agreements (VRAs) were terminated on March 31, 1992, as scheduled.
- o The U.S. has been and will continue to focus on developing an international consensus to end government supported distortive and unfair practices in steel. The MSA stalled in late March due to the lack of agreement in "greenlighted" subsidies, antidumping consultations provisions, and issues relating to "waivers" from MSA provisions. During the U.S. and Japan bilateral consultations on the MSA, we have discussed ways of restarting the talks, without compromising our position that any MSA must yield a truly "GATT-plus" agreement.
 - The USG is focusing its efforts on developing this consensus, known as the multilateral steel agreement or "MSA."
 - Both the U.S. and Japan are participating in MSA negotiations. U.S. and Japanese officials have met several times over the past months to discuss outstanding issues. The proposed MSA is based on disciplines contained in the bilateral consensus agreements (BCAs) negotiated in 1989 and currently in effect with certain of the United States' steel trading partners.
- o U.S. authority to enforce the VRAs under the Trade and Tariff Act of 1984, as amended, was contingent on a positive determination by the President that major steel companies had committed substantially all of their net cash flow from steel product operations to reinvestment and modernization.
 - For the period from October 1, 1990 to May 31, 1991, the International Trade Commission determined collective expenditures on steel plant and equipment exceeded net cash flow from steel operations. The ITC also forecasted such expenditures would continue to exceed

net cash flow for the remaining months of the 12-month period ending September 30, 1991.

- The U.S. steel industry has undertaken major efforts to improve its competitiveness. For example, current programs to install continuous casters should raise the U.S. percentage of steel cast by this method to over 80 percent by 1995. Man-hours per ton of steel produced in the United States are among the lowest in the world.

Machine Tool Voluntary Restraint Agreements

- o The U.S. and Japan have reached an agreement to phase out Japan's voluntary restraint of machine tool exports to the United States during the two years ending December, 1993.
- o Upon announcing his decision to negotiate a progressive removal of the machine tool VRA, President Bush announced a number of domestic policy initiatives for the U.S. machine tool industry. These include:
 - The Secretaries of Commerce and Defense shall continue to implement the Domestic Action Plan of programs to support the revitalization of the U.S. machine tool industry, including support of the National Center for Manufacturing Sciences and DOD's Manufacturing Technology Research and Development Program.
 - The Secretary of Commerce, as chairman of the Cabinet-level Trade Promotion Coordinating Committee, shall give special focus to ways to promote machine tool exports.
 - U.S. export control regulations shall be reviewed to ensure restrictions on machine tools are kept to the minimum consistent with national security.
 - The Secretary of Labor shall help the machine tool industry improve technical training, human resource management, and the utilization of new and emerging technologies.
 - The Secretaries of Commerce and Energy shall examine which research and development efforts in the national laboratories could benefit the domestic machine tool industry and will recommend appropriate investment and technology transfer to realize such benefit.

IV.D. Trade Laws and H.R. 5100

In accordance with the Administration's goal to open markets and expand trade, the U.S. Government will continue to fairly, objectively, and vigorously implement U.S. trade laws consistent with its GATT obligations.

As stated by Ambassador Hills in her testimony on the content of H.R. 5100 on May 14, 1992, "... however well intentioned the Trade Expansion Act may be, the effect could well be trade contraction. The bill contains many provisions that threaten to close markets, not open them. Such legislation could be particularly destructive at a time when the U.S. economy and job creation are enjoying sustained support from strong export growth."

New Commitments

IV.E. Regulatory Burden

On January 29, 1992 the President initiated a 90-day period of regulatory review, which, owing to its success, has been extended for four months (through August 29, 1992). Inefficient or unnecessary regulation hampers the competitiveness of U.S. business by raising costs and impeding the development and utilization of advanced technologies. Substantial reduction of the regulatory burden is being achieved without compromising public safety or health through a careful review of each regulation's cost effectiveness.

As a part of this review each agency, to the extent permitted by law, is to refrain from proposing or issuing new regulations and programs which retard economic growth.

- o Under the auspices of the Council on Competitiveness, the heads of the major Federal regulatory agencies review regulations and programs hindering economic growth. They also identify and accelerate actions to reduce the burden of existing regulations. Each regulation is reviewed to determine whether it satisfies five requirements.
 - The expected benefits to society should clearly outweigh the costs.
 - The regulation should be fashioned to maximize the net benefits to society.
 - To the maximum extent possible, the regulation should rely upon performance standards instead of command-and-control requirements.
 - Market mechanisms should be relied upon to the maximum extent possible.

- The regulation should provide clarity and certainty to the regulated community and be designed to avoid litigation.
- o As a result of this review, the Administration has already taken specific steps to remove regulatory roadblocks to growth. Some examples are:
 - Under a new policy developed by the President's Council on Competitiveness, federal regulators will exercise oversight over the use of biotechnology processes only when a specific product poses an unreasonable risk. With the help of this new policy the U.S. biotechnology industry is expected to grow from a \$4 billion to a \$50 billion a year industry by the year 2000.
 - Financing costs, a significant part of the price of almost all goods and services, have been reduced by an agreement among the four agencies regulating banks and thrifts to apply uniform supervision policies and procedures. Further, EPA has clarified that lenders are not ordinarily liable for environmental damage done by their borrowers, removing a significant barrier to lending.
 - The Department of Agriculture has announced a number of actions to reduce labelling costs. Exemptions will be implemented to provide flexibility for small businesses, and the transition costs of new labelling standards will be eased by extending the implementation period by one year;
 - The Administration has developed several innovative, market-based approaches to reduce the costs of meeting environmental goals. These include the use of emission reduction credits for removing high-polluting vehicles from the road, expediting the creation of futures contracts in emission reduction credits, and eliminating a requirement for "onboard refueling vapor recovery systems" for new cars;
 - The Interstate Commerce Commission and the Federal Maritime Commission have trimmed complex regulations which needlessly increase the cost of truck, rail and ocean transportation.
 - The Securities and Exchange Commission proposed a regulation to increase from \$500,000 to \$1 million the amount a small business can raise through stock offerings without registering with federal authorities. Also, the SEC made it possible for thousands of small businesses to use streamlined registration forms, saving more than \$180 million on accounting and legal fees.

V. Research and Development

The first Annual Report on the SII described several initiatives proposed by the Administration that would promote U.S. research and development through both public and private sector efforts. Substantial progress has been made with each of these initiatives since the publication of the report.

V.A Federally-supported Research and Development

- o Federal support enacted for the conduct of research and development (R&D) in FY 1992 will increase by \$8 billion, to approximately \$74.5 billion.
 - Support for civilian R&D will increase by 7 percent, to more than \$28 billion.
 - Support for defense-related R&D will decrease by 13 percent, to approximately \$42.7 billion.
 - Spending on Federal civil space activities will increase by 6 percent.
- o The President's FY 1993 budget calls for a nearly \$2 billion increase in Federal funding for research and development, to a record high of more than \$76.5 billion. Under the President's plan, support for civilian R&D would increase by over 7 percent and defense-related R&D would increase by 1 percent. The share of defense R&D in total Federal support for R&D would decline from 60.0 percent to 58.7 percent in FY 1993 and the share of civilian R&D would increase from 40.0 percent to 41.3 percent.
- o A 13 percent proposed increase for Federal civil space activities includes an 11 percent increase for space station development, and a 24 percent increase for the global climate change research program.
- o Part of the \$2 billion proposed expansion in funding for Federal R&D would be devoted to a 21 percent increase for the National Science Foundation. The Administration remains committed to doubling the NSF budget by 1994.

V.B Support for Private Research and Development

Industry is the largest supporter of R&D in the United States, providing slightly over 50 percent of total national outlays on R&D. Private research and development will be bolstered by lowering the cost of capital by making permanent the R&E tax credit and by reducing regulatory and legal barriers to investment.

- o The use of tax credits stimulates R&D, but it is a near-term revenue loser to the Treasury. In the longer-term those losses may be offset by the revenues from taxes on profits and income derived from new products and processes stimulated by the credit.
- o The President's FY 1993 budget again proposes a permanent extension of the research and experimentation tax credit and an 18 month extension of the allocation rules.
- o The Congress accepted the Administration's objections to the foreign participation provisions in Title II of the American Technology Preeminence Act of 1991. The Act does not restrict foreign participation in the U.S. market. It requires both foreign and domestic firms' participation be in the interest of the United States, as evidenced by R&D, manufacturing, and significant employment in the U.S., and agreement to future commercial application of resulting technology. In addition, the Act contains important safeguards for U.S. investors overseas, by ensuring foreign governments provide national treatment to U.S. investors in their home markets and adequate protection of their intellectual property rights.

V.C Adoption of the Metric System

- o Beginning fiscal year 1993, Federal departments and agencies must use the metric system of units in procurements, grants, and other business-related activities, except where it is impractical to do so or significant inefficiencies or loss of markets by U.S. firms will occur.
- o The Department of Commerce is working with different industry sectors to develop timetables for adoption of the metric system of units. One example is the metric design and engineering of all commercial government buildings. The goal is for all Federal commercial construction to be in metric units by 1994.
- o Federal agencies are cooperating in the formation of an ad hoc committee to work with industry, to develop information, and to set timetables for a transition of government paper and printing to metric sizes. The Congressional Joint Committee on Printing is expected to require that the Government Printing Office use the metric system of units in all of its documents.
- o Federal agencies put metric transition plans into effect November 30, 1991, as mandated by the President's July 25, 1991, Executive Order 12770 "Metric Usage in Federal Government Programs." Commerce has also established

metric system of units transition guidance for Federal agencies. The Order designated the Secretary of Commerce as the coordinator of the government's units. According to the Order, Federal agencies will report to the Secretary on their metrication progress and give recommendations to overcome transition problems and barriers by June 30, 1992. The Secretary will use this information for a special report due to the President on October 1, 1992.

- o As part of their FY93 budget submissions, Federal agencies reported on actions taken during the previous fiscal year to implement the metric system of units.
- o Progress on the transition to metrication is being made at all levels of government. The National Council on State Metrication met on July 19, 1991 to discuss Federal metric grants to states, the states' metric transition public awareness campaigns, and state metric procurement policy.
- o The Commerce Department is developing plans to survey industry on its progress on making the transition to metric.
- o The Federal government's own imminent transition to metric units will serve as an important catalyst for U.S. firms to begin metric usage and to enhance already existing metric programs.
- o Companies bidding on Federal procurements and grants will have to change to the metric system to the extent feasible, or, alternatively, risk being precluded from bidding beginning September 30, 1992. At the same time, Federal procurements, grants, and all business-related activities are required to be in metric, to the extent such use is practical and does not cause significant inefficiencies or loss of markets to United States firms.
- o The Department of Commerce will work even more closely with industry this year to heighten its awareness of the benefits of the metric system.
- o The President's Export Council (PEC), a leading U.S. private sector Commerce advisory committee, endorsed the Federal government's efforts to convert to the metric system and has strongly urged industry to adopt the system. The PEC issued a formal statement in this regard during the week of March 29, 1992.
- o Moreover, U.S. exporters are taking the initiative to make the conversion to metric more and more as they become increasingly aware they must use metric units to effectively compete overseas.

Examples of the Commerce Department's Efforts on Metric System

- o To enhance Federal efforts, the Commerce Department held its first annual "Metric Awareness Week," from October 6-12, 1991, to highlight that the government's transition to the metric system of units is well underway. Also within Commerce during "Metric Awareness Week," "Metric is Coming" posters were distributed and displayed in government buildings nationwide. Additionally, the National Oceanic and Atmospheric Administration (NOAA) publicized its imminent transition to metric by distributing its poster "NOAA Goes Metric" to 1,000 nautical chart distribution offices, yacht clubs, ship chandlery shops, and other appropriate industry representatives. Other agencies have similar awareness activities.

New Commitments

Federally-supported Research and Development

The Advanced Technology Program makes grants to companies on a cost-sharing basis to fund pre-competitive generic technology. Many other governments have pre-competitive, generic technology programs covering a wide range of technologies and often with very substantial funding.

- o The Cooperative Research and Development Agreement (CRADAS), the Office of Research and Technology Applications (ORTA), and the Regional Manufacturing Technology Centers of NIST demonstrate the Administration's commitment to technology transfer and strong commercialization programs.
- o The U.S. has sharply increased its efforts to transfer technology from federally-supported programs. President Bush's budget for FY 93 calls for \$579 million to be allocated for technology transfer activities. Funds for ORTAs would increase 19% to \$32 million. Administrative procedures for establishing CRADAs are being streamlined and over a thousand are now in place. The National Technology Initiative meetings have explored a wide variety of possible actions to further improve the effectiveness of technology transfer efforts. The U.S. must carefully evaluate its efforts, including the Manufacturing Technology Centers, the Engineering Research Centers, and other programs, in order to obtain the greatest leverage from federal expenditures.
- o At the present time, U.S. laws provide small businesses and nonprofit organizations (e.g., universities) performing Federal research work may seek

the intellectual property rights to inventions coming out of their research. The contractors can then either develop the commercial aspects of these inventions themselves or license the inventions to others for implementation.

- o A related law is the Federal Technology Transfer Act, which authorizes Federal laboratories to enter into Cooperative Research and Development Agreements (CRADAs) with private sector partners. The parties perform cooperative research on subjects of mutual interest and the private party is able to secure intellectual property rights to inventions generated by the work.
- o The Bush Administration has worked hard to implement these laws and to make the private sector aware of the opportunities for technology transfer from Federal programs.
 - The ongoing National Technology Initiative (NTI) meetings have focused private sector attention on the work of the Federal laboratories and the opportunities for collaboration arising from that work. Industry awareness of and interest in these opportunities is increasing and individual companies and consortia are beginning to enter into a wide variety of agreements with Federal laboratories.
- o The United States has fully implemented the provisions of the Federal Technology Transfer Act in its agencies and laboratories. All delegations of authority are in place and substantial efforts are underway, including the National Technology Initiative, to promote industry interest in partnering with the Federal Laboratories.
- o The President's FY 1993 budget again proposes a permanent extension of the research and experimentation tax credit and an 18-month extension of the allocation rules.

Support for Private Research and Development

The Congress accepted the Administration's objections to the foreign participation provision in Title II of the American Technology Preeminence Act of 1991. The USG will continue to consult with the Congress on non-discriminatory participation by foreign firms in the ATP.

- o The Administration has requested an extension of the ATP and an increase in its funding in the FY '93 budget. Through this, and similar increases and extensions, the government has manifested its intent to increase the federal share of R&D funding targeted on enhancing the competitiveness of the U.S. private sector in the non-defense area.

Adoption of the Metric System

The progress report, which will be compiled in October, should describe to what extent the metric system has been adopted in the U.S. within the government. Thereafter, the USG will consider ways to review and report on the metric system adoption in the private sector. Further, the USG will strengthen measures to ensure metric system usage not only by the federal government but also local governments from the viewpoint of strengthening the overall industrial competitiveness of the United States.

With respect to effective educational programs, these should be implemented for the general public on the metric system. Such educational programs are essential especially in the process of changing measurement units.

The U.S. Government again recognizes that increases in private sector metrication are essentially important and that metric usage in general is paced by the degree of metric usage in the private sector and the ability and willingness of private business to adopt metric usage. The Department of Commerce will continue to study ways including mandatory measures and voluntary programs for the private sector to expand and increase significantly the use of the metric system.

- o The U.S. Government will provide to the Japanese Government an opportunity to review the progress report well in advance of its publication.
- o The U.S. Government welcomes comments by the GOJ regarding its progress reports on implementation of SII commitments and future plans and, as appropriate, will consider these comments.

VI. Export Promotion

The Commerce Department has dedicated an unprecedented amount of resources to promoting exports to Japan and worldwide since the inception of SII.

Overview of Worldwide Export Promotion Efforts

- o The Commerce Department's U.S. and Foreign Commercial Service (US&FCS), which manages our export promotion program, has successfully implemented many of the initiatives outlined in the May 1991 Joint SII Report. Specifically:
 - Thirty-six Industry Sector Analyses were produced during FY91 on the Central European markets. World Trade Data Reports (WTDRs) and the Agent Distributors Service (ADS) have both been expanded for Poland, Romania, Czechoslovakia, and Hungary.
 - In FY92, there will be a continued high-level production of Industry Sector Analyses, an additional 1,000 more are anticipated.
 - A new planning and counselling tool was introduced in late FY 91 which will provide companies with a rank order of the markets with the greatest potential for export sales in a given sector.
 - Over 850 market insight reports were entered into Commercial Information Management System and the National Trade Data Bank last year on incoming information from the posts. Since November 16, 1991, all market insight reports have been loaded on to the Economic Bulletin Board daily for immediate access by District Offices and the business community.
 - Leads generated through the Trade Opportunities Program (TOPS) program are now distinctly categorized by private and public tenders. TOP government tenders now are entered in the Commerce Business Daily and the Journal of Commerce.
 - The distribution of Commercial News USA has been upped dramatically through private sector economic bulletin boards in 17 countries. A special issue (September 1991) featured products of over 200 firms to give them exposure and access to Persian Gulf reconstruction export opportunities.

The Trade Promotion Coordinating Committee

- o In February 1991, the Secretary of Commerce, in his role as Chairman of the Trade Promotion Coordinating Committee (TPCC), kicked off a national series of conferences, "Exports Generate Jobs for Americans," in Minneapolis, Minnesota. More than 7,000 industry representatives attended the 30 conferences he conducted last year.
- o The TPCC's mandate is three-fold: It coordinates Federal trade promotion efforts to focus on new and emerging markets; it gives government agencies a unified trade promotion presence; and it informs American firms about available government assistance and provides "one-stop shopping" to USG programs.

- The Trade Promotion Coordinating Committee (TPCC) is the first step towards development of a unified Federal trade promotion effort. It has made substantial progress, though USG export promotion strategy remains less than fully integrated. Through the TPCC the Department of Commerce is working closely with other 18 government agencies to develop a coordinated trade promotion program. The plan is based on three components:

- Focus Federal trade promotion efforts on priority overseas markets and U.S. industries with the highest export potential, which reflects our industries' greatest strengths, and competitiveness, and supports our trade policy objectives.
- Offer American firms a unified Federal trade promotion presence, and cooperate in creating a coordinated export effort.
- Educate the business community about specific Federal export assistance programs and offer "one-stop" access to these programs.

TPCC's activities and those of the Commerce Department's International Trade Administration's export promotion efforts have raised the awareness of U.S. companies concerning the essential importance of exports to corporate growth and the national economic interest. U.S. industry is now fully aware of having reached a critical turning point for commitment to the development and implementation of global marketing strategies.

- o The Secretary also created the Commerce Trade Information Center, so U.S. firms can one-stop shop for exporting information.

New Commitments

Following the GAO report issued in January 1992, stipulating that the U.S. government export promotion programs lack strategic cohesiveness, the USG will enhance the efforts of the sub-cabinet working group to strengthen the export promotion programs.

The USG commits to fully implement the objectives outlined in the TPCC's action plan. This should further augment the TPCC's efforts to illuminate the exporting process and assist U.S. firms advance in seizing business opportunities overseas.

The TPCC will:

- o Focus Federal trade promotion efforts on priority overseas markets and U.S. industries with the highest export potential, which reflects our industries greatest strengths, and competitiveness, and supports our trade policy objectives.
- o Offer American firms a unified Federal trade promotion presence, and cooperate in creating a coordinated export effort, which is achieved through the National Export Initiative, the Trade Information Center (NEI), and working groups.
- o Educate the business community about specific Federal export assistance programs and offer "one-stop" access to these programs through the successful NEI and the Trade Information Center, respectively.

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The new Secretary of Commerce, Barbara Hackman Franklin, kicked off the TPCC's National Export Initiative (NEI) seminar this year with an event in Dallas, on June 18. This was attended by approximately 250 people. Future planned NEI seminars are as follows:

Louisville, Kentucky	July 31, 1992
Rochester, New York	September 15, 1992
Charleston, South Carolina	September 30, 1992
Orlando, Florida	October 1, 1992
Orange County, California	October 14, 1992

The last two events of 1992 are currently being planned but it is believed they will be held in New Orleans, Louisiana and Salt Lake City, Utah.

The U.S. Government will report annually to Japan on accomplishments of the TPCC.

Presidential Awards for Successful Exporters

The Presidential Awards System to honor successful exporters is receiving renewed priority attention. This was demonstrated most recently when the new Commerce Secretary, Barbara Hackman Franklin, presented an "E" award immediately after her confirmation.

- o The President's "E" Awards Committee is chaired by the Commerce Department with representatives from the Departments of Agriculture, Interior, and Labor, the Small Business Administration, and the Export-Import Bank.
- o To qualify for the President's "E" award, a manufacturer must show evidence of a substantial increase in the volume of exports over a four-year period. Exports should constitute a significant portion of total product sales and/or be materially in excess of the industry's average percentage. The company should demonstrate breakthroughs in especially competitive markets, introduce a new product into U.S. export trade, or open a new market.
- o "E" Award ceremonies are arranged to give maximum publicity to both the recipient and the Department of Commerce's export promotion efforts.
- o The President's "E Star" Award, introduced in 1969, recognizes continued superior performance in increasing or promoting exports. Only recipients of the "E" Award are eligible, and the level of performance must exceed the level for which the "E" award was given.

"E" award winners must show the commitment to 1) competitiveness, 2) demonstrated success in international markets, and 3) commitment to export, which the U.S. Government will also emphasize through its various export promotion programs.

The U.S. Government will fully utilize the President's E awards in order to award American businesses which are making efforts to increase export to Japan.

The U.S. Government has in place an action plan to enhance the public awareness of the "E" awards. The USG will also research ways to further publicize the awards. The USG will report on its entire public awareness campaign at the next SII meeting.

Japan Export Promotion Program

Since the beginning of SII, the Department of Commerce has:

- o Increased its United States and Foreign Commercial Service staff in Japan from 45 persons in FY90 to 61 persons in FY92. The US&FCS opened a branch office in Nagoya, with one American commercial officer and one professional Japanese employee, in 1991 to better seek and report on commercial opportunities in this important industrial region.
- o Appropriated more funds (\$4.9 million in FY92 compared to \$3.6 million in FY90) to help U.S. firms pursue market opportunities in Japan. The FY 1993 budget proposes an increase to \$5.3 million.
- o Enhanced the Japan Export Information Center (JEIC) by increasing its staff and by implementing a Japan outreach program. Since the President's trip to Japan in January 1992, the JEIC has averaged around 170 calls per week.
- o Assisted U.S. industry (primarily American construction, engineering and design consultants) in seeking commercial opportunities in the Japanese Official Development Assistance (ODA) program. To date, Commerce has compiled a mailing list of over 400, assisted over 150 firms and is aware of approximately \$117 million in ODA contract awards to these companies.
- o Published documents on Japanese market entry alternatives. For example, it has 1) produced 64 new Japan industry sub-sector market research reports including a special report on the Distribution System of the Japanese Auto Parts Aftermarket in June 1991; 2) published a comprehensive exporting guide called Destination Japan: A Business Guide for the 90s; 3) highlighted business opportunities in the feature articles of Business America, and 4) expanded the "best exports prospects" list. In FY92, US&FCS Japan will produce an additional 40 industry sub-sector analyses to be added to our database. In addition, JETRO has committed to 10 market research reports on industry sub-sectors under the U.S.-DOC MITI Joint Program.
- o Led an average of ten trade missions a year in addition to sponsoring numerous U.S. and international trade events representing a broad spectrum of U.S. industries and including current and potential export firms.
- o Introduced the Japan Corporate Program (JCP), a five-year export promotion program for 20 selected companies representing a variety of industries and experience in the Japanese market. The JCP has completed its first year. A number of participant-companies have reported an increase in sales and accelerated negotiations with potential Japanese distributors.

The Promotion of Agricultural Exports to Japan

- o Japan is the most significant object of the U.S. Department of Agriculture's market development efforts. USDA funding for promotional activities in Japan has grown ten-fold since 1985 to about \$60 million per year.
- o With the opening of the new Agricultural Trade Office (ATO) in Osaka in March 1992, USDA now has four offices in Japan, more than in any other country. These offices are staffed by a total of nine Americans and seventeen local staff.
- o In addition to spending about \$3 million on marketing activities carried out directly by the ATO's, USDA helps support the market development activities of some 50 U.S. agricultural producer associations and food companies in Japan, many of which are known as "cooperators." Products promoted range from cherries, to beef and mink, to plywood and feed grains.
- o USDA's Foreign Agricultural Service provides a number of services specifically designed to assist U.S. agricultural exporters in identifying market opportunities in Japan. For example, the Agricultural Information and Market Service program helps bring Japanese buyers and U.S. sellers together through communications services such as "Buyer Alert" and "Trade Leads."

New Commitments

Promoting Long-term Exporting Strategies

- o The Commerce Department will continue its efforts to advise U.S. companies that a fundamental aspect of successful exporting is devising long-term aggressive exporting strategies.
- o The Commerce Department is currently supporting a pilot program, the Japan Corporate Program (JCP), in which we are working with 20 U.S. companies that have designed long-term plans for penetrating the Japanese market. The fundamental goals of the program are to increase export to Japan, to create models of success for other U.S. companies to follow, and to deepen the U.S. exporting companies' understanding on the business environment in Japan surrounding American companies.
- o The JCP is a five-year export promotion effort, begun in January 1991. The 20 participating companies involved represent a wide spectrum of industries and experience in the Japanese market. The companies receive extensive support from Commerce Department staff and from use of Commerce export services.

- o The JCP has just completed its first year and many of the companies have reported an increase in sales and accelerated negotiations with potential Japanese distributors. The Department of Commerce is following the participants' progress and will incorporate the knowledge it gains from the JCP into its counseling services to all U.S. business. The program is intended to have a multiplier effect and increase opportunities for all U.S. businesses.

Promoting Exports to Japan

- o The U.S. is fully committed to carrying out and enhancing our export promotion efforts.
- o The USG will assist U.S. exporters to enter and advance in the Japanese market, and support U.S. companies to take advantage of the new market opportunities emanating from MITI's announcement of its Business Initiative for Global Partnership (BIGP).
- o As a follow-up to the President's trip and the BIGP, the Commerce Department has developed an action plan composed of three elements.
 - Working with U.S. industry groups and Japanese counterparts to secure information on the products to be procured by the Japanese companies under the voluntary import promotion programs.
 - Mounting a series of trade missions to underscore new market opening measures for sectors such as paper, glass, and computer procurement.
 - Creating an information dissemination network to inform U.S. firms directly of new export opportunities.
- o Enhanced business counselling and commercial information services are being instituted through an expanded and proactive Japan Export Information Center (JEIC) which is projecting a 25 percent increase in requests for assistance from 12,000 to 15,000 in FY92.
- o Another element of our export promotion strategy is increasing efforts to identify and facilitate commercial opportunities for U.S. suppliers to Japanese domestic infrastructure and third country Official Development Assistance (ODA) funded projects.

- o The Commerce Department is currently planning an ODA seminar, pursuant to the Tokyo Declaration, that will focus on the mechanics of ODA and on bringing U.S. and Japanese firms together in a joint effort to help third world countries.

Private Export Promotion Programs

The U.S.-Japan Business Council, a private sector association, has taken an active and constructive role in following up on the export opportunities arising from the President's January trip to Japan and from the Japanese "Business Initiatives for Global Partnership." The Joint Resolution of the U.S.-Japan Business Council and the Japan-U.S. Business Council in mid-February 1992 resolved to take strong action on the part of both the U.S. and Japanese private sectors to follow up on these opportunities. On July 14, 1992, the Councils concluded its 29th annual Japan-U.S. Business Conference. At the Second Plenary Session, the Councils issued a statement which discussed the joint decision to establish a services task force and consider forming other working groups in appropriate sectors.

- o Current efforts of the U.S. side of the Council are directed towards:
 - arranging U.S.-Japan vendor meetings and joint industry dialogues;
 - mounting an export symposium; and
 - developing a U.S. Export Charter.
- o On February 18, 1992, then Under Secretary of Commerce for International Trade Michael Farren issued a press statement stating that the Commerce Department "is committed to providing full support to the export promotion activities outlined by the (U.S.-Japan Business) Council in its Joint Resolution. To assist the U.S. side of the Council's efforts, ITA (the International Trade Administration of the Department of Commerce) will certify each trade mission, participate in mission activities as requested by the private sector organizations and provide technical assistance and information to mission participants."
- o The Commerce Department, in joint sponsorship with the U.S.-Japan Business Council, has now scheduled a major, one-day U.S. Japan trade symposium for October 19, 1992. The Secretary of Commerce is fully supportive of the event and will deliver the keynote remarks. Representatives from prominent U.S. trade and industry associations will be invited. The objective of the symposium is to pursue commercial opportunities resulting from the President's January trip to Japan and to further encourage U.S. companies to export to Japan.

- o During Prime Minister Miyazawa's July 1, 1992, visit to Washington, the President underscored the importance for the private sector to enhance exports. He stated, "I will work to support the efforts of America's private sector to create an export vision to open foreign markets that means more American jobs."
- o All USG trade development programs and services have been directed toward encouraging U.S. firms to expand exports to overseas markets. The Trade Promotion Coordinating Committee (TPCC) will ensure that the trade promotion activities of 18 USG agencies provide maximum encouragement and assistance to potential and established exporters. It is expected that, with this kind of encouragement, U.S. firms will formulate export plans and implement them.

U.S. Export-Import Bank

The Eximbank will continue its efforts to improve and strengthen the efficiency of its programs, including by pursuing its recent initiative to provide as necessary 100% coverage of principal and interest under its guarantees and by providing guaranteed lenders more repayment flexibility in the event of a default.

Eximbank will seek to expand its program of financing exports on a limited recourse basis for certain types of projects. This program should permit Eximbank to use its resources more efficiently in supporting exports. Eximbank will continue to look for opportunities to increase the competitiveness of smaller export transactions through the bundling of small credits into a single large facility to achieve financing economies of scale.

In addition, the USG will further promote the expansion of the cooperative relationship with the Export and Import Insurance Division of the Ministry of International Trade and Industry and other relevant agencies. Finally, the U.S. will remain active in the efforts under the auspices of the OECD to level the playing field in the export credit area.

VII. Workforce Education and Training

As was recognized in the SII Joint Report and the First Annual SII Report, improving the education and training of the U.S. work force would increase productivity and enhance competitiveness. The Administration has long been committed to this goal. During the past year the President has reaffirmed this commitment. The U.S. has developed far-reaching strategies to reach the goal; with the support of American business and communities, the Administration proposes to undertake unprecedented steps to carry out these strategies.

VII.A Education

National Education Goals

- o Two years ago the President and the nation's governors committed the U.S. to achieving six national goals designed to enhance scholastic excellence and workforce skills. The goals, to be reached by the year 2000, include: a high school graduation rate of at least 90 percent; preeminence in math and science; every adult will be literate and possess the skills necessary to compete in the world economy.

America 2000

- o On April 18, 1991, the President outlined his plan to achieve the National Education Goals, "America 2000". The plan calls for four related strategies: (1) better and more accountable schools for today's students; (2) new types of schools for future students; (3) promotion of life-long learning; and (4) community and family support for learning.
- o As part of the first strategy, the President and the governors established the National Education Goals Panel to oversee the progress in meeting the National Education Goals.
- o Over the past year, the National Education Goals Panel has held extensive regional and national hearings, with testimony from experts, educators and the public. In September, 1991, the Panel released the first of ten annual reports to the nation on the progress toward the goals.
- o The 10 annual National Education Goals Reports will track progress by the nation and the states towards meeting each of the six education goals that the President and the state governors established in 1989. The first report, for the year 1991, presents information on progress made at the state and national level relative to each goal, and describes the Federal Government's role in achieving these goals. Future reports will contain similar information.

- o The National Council on Education and Testing was created by legislation and was charged with: (1) advising on the feasibility and desirability of national standards and tests, and (2) recommending long-term policies and mechanisms for setting voluntary standards.
- o On January 24, 1992, the Council issued a report on "Raising Standards for American Education," which recommended that the nation set national education standards and develop a voluntary system of assessments to help schools and students meet these standards. To carry out this initiative, the Council proposed the creation of a new National Education and Assessment Council. Legislation to create this body is pending before the Congress.
- o High school completion is at an all-time high. Eighty-three percent of all 19- and 20-year-olds in 1990 had finished high school or its equivalent--7 percent short of the national goal.
- o Alcohol use at school by 12th graders dropped from 21 percent in 1980 to 7 percent in 1990. The in-school use of marijuana declined from 14 percent in 1980 to 6 percent in 1990; use of cocaine at school declined from 3 percent in 1980 to 1 percent in 1990.
- o Student achievement in mathematics and science has improved somewhat over the past decade, although much remains to be done over the next one.
- o The President's America 2000 plan is a comprehensive strategy for achieving the six national education goals for the year 2000. It contains four parts as follows:
 - Improve today's schools--make them better and more accountable;
 - Create a New Generation of American Schools;
 - Go back to school ourselves, recognizing that learning is a lifelong process and;
 - Make our communities places where learning can happen.
- o American communities have accepted the President's call for commitment under the community support strategy. As of April 1992, 43 states and 1200 communities have signed on to America 2000 and are developing strategies to attain the National Education Goals.
- o In response to the President's challenge in the second strategy, American business formed the New American Schools Development Corporation, a non-

profit corporation which is raising funds to support creative education designs. Over the next five years the Corporation will fund a series of design teams and implementation projects to restructure and revitalize whole schools.

The Federal Role

- o While the states and localities are primarily responsible for helping meet the National Education Goals, the Federal Government has a vital role to play in offering financial support, services and sponsorship of research and demonstration projects.
- o In the FY 1993 budget, the Administration calls for support of over \$81 billion for programs administered by 25 agencies, representing an increase of 44 percent since 1989 and 8 percent over 1992. This growth reflects the high priority given education over the past three years and the President's commitment to achieving educational excellence in the future.
 - The Administration proposes funding of over \$20 billion to support educational readiness in preschool years, and help move the nation toward achieving the first National Education Goal, having children arrive at school ready to learn. In particular, the Administration requests funding of over \$2.8 billion for Head Start, a comprehensive child development program for pre-school, low-income children. This represents a 27 percent increase over 1992 and will allow the program to serve nearly 800,000 children.
- o The Administration proposes funding of nearly \$22 billion for elementary and secondary education programs and strategies, including funding for programs contained in the Excellence in Education Act and math and science programs (see below).
 - Under the America 2000 Excellence in Education Act, the Administration requests \$500 million, to be matched by an equal amount of state funds, for the Choice Grants for America's Children Act. The over \$1 billion total would support innovative local choice proposals to help middle- and low-income families gain more choice of schools and provide incentive for all schools to improve.
 - The proposed America 2000 Excellence in Education Act would provide competitive grants of up to \$1 million each to help over 535 communities develop new schooling designs.

- The Administration requests \$654 million for programs under the Drug-free Schools and Communities Act, an increase of \$30 million over 1992.
- The Administration proposes funding of nearly \$37.5 billion in 25 Federal agencies for post-high school programs, an increase of 6 percent over 1992. Under the Higher Education Act, the Federal Government provides for 75 percent of all funds for grants, loans and work-study jobs available to post-secondary students.
- o The Administration has requested the highest funding for grants and the largest one year increase in history, a request of \$6.6 billion, or 22 percent above 1992.
 - In addition the budget proposes Presidential achievement scholarships to every grant recipient who demonstrates high academic achievement, providing incentive for improved academic performance.
- o The Administration has undertaken significant management reforms and proposed reform legislation to ensure that the largest student aid program, the Guaranteed Student Loan Program, functions effectively. Reforms include: garnishment of wages for defaulted borrowers; credit checks for borrowers age 21 and over; requiring a creditworthy co-signer if a negative credit history is found; and authorizing data matches with Federal agencies to locate defaulters.
- o The President has proposed two major tax incentives to help meet the rising cost of and ensure access to higher education; (1) allow deduction of interest on student loans for post-secondary education tuition, fees and living expenses; and (2) allow penalty-free withdrawal of money from Individual Retirement Accounts for educational expenses.

Math and Science Education

- o The President established a special Committee under the Federal Coordinating Council on Science, Engineering and Technology, to recommend a coordinated strategy for the use of Federal funds, and to work with the states in achieving the fourth National Education Goal.
- o The Administration proposes funding of over \$2 billion for mathematics and science education programs in 11 agencies, an increase of 7 percent over 1992.

- o The highest priority of the Special Committee is improvement of pre-college math and science education. The Committee's development of a comprehensive math and science education strategy will help states and localities make significant progress in three areas: teacher training, use of electronic dissemination of math/science learning methods, and use of computers and scientific equipment.

A Nation of Students

- o America 2000 calls for improvement in lifelong education and training for the country's workforce. In July 1991, the Secretary of Labor's Commission on Achieving Necessary Skills (SCANS) identified general competencies and a foundation of skills needed for good job performance. (See VII B below, for a description of the SCANS Commission findings.)
- o The Education and Labor Departments will work together to support work-related education and skill standards in several areas: (1) youth apprenticeship training in high schools; (2) aid for lifelong learning through the student loan program; (3) vocational education programs which integrate secondary and post-secondary education for technical occupations. (Also see VII B below.)
- o Interest in "partnering" programs between educational institutions and businesses is continuing to grow; for example, an increasing number of junior colleges are working together with businesses to improve the work-related education and training of our youth.
- o The President signed the National Literacy Act in July 1991, providing for the National Institute for Literacy Research and Practice, a resource center on adult literacy issues, as well as funds for technical assistance to small- and medium-sized firms.
- o The FY 1993 budget calls for over \$300 million for literacy and basic education for adults under the Adult Education Act.
- o In 1992, the first quadrennial national household survey to measure levels of literacy among the adult population will be conducted. Results of this study will be available in 1993.

VII.B Training

Work Force Action Programs

As described in previous SII Reports, the U.S. Department of Labor has initiated and carries on an action program to improve the quality of the work force. To accomplish this, the Department will help to implement the President's America 2000 education strategy. The following documents progress on some of the key elements of the action program.

The Secretary of Labor's Commission on Achieving Necessary Skills

The Secretary's Commission on Achieving Necessary Skills (SCANS) was asked to examine the demands of the workplace and was directed to advise the Secretary on the level of skills required to enter employment. In July 1991 the SCANS Commission reported to the Secretary of Labor on its findings.

- o The report, "What Work Requires of Schools," identifies five general competencies and a three-part foundation of skills and personal qualities that lie at the heart of job performance. The report recommends that the competencies and the foundation be taught and understood in an integrated fashion that reflects the workplace contexts in which they are applied.
- o The Commission also drew three major conclusions regarding achievement of these skills:
 - All American high school students must develop a minimum set of competencies and foundation skills.
 - The qualities of high performance that characterize our most competitive companies must become the standard for the vast majority of our companies.
 - The nation's schools must be transformed into high-performance organizations in their own right.
- o The SCANS final report--Learning a Living: A Blueprint for High Performance--has just been released. It argues for a reorganization of education and work to close skill gaps and prepare the workforce of the future.
- o Another publication, "SCANS in the Schools," is designed for educators planning to incorporate teaching SCANS competencies into their curriculum

and instruction.

- o The SCANS Commission has completed its work and is going out of existence in July 1992. Its work will be carried on through established components of the DOL.

School-to-Work Transition Programs

- o The demonstration project grants made in the fall of 1990 have completed their two year funding allotment. The most effective model programs have been extended for a third year. The grantees continue to meet quarterly to share information and publicize their successes.
- o The school-to-work transition programs consist of a structured combination of academic instruction, classroom training, paid on-the-job training and work experience, and mentoring. Students choosing apprenticeships would make formal agreements with the school, the employer, and parents or guardians.
- o Another round of demonstration grants is presently being completed, based upon the successful experiences of the first round and the growing national interest in this activity. Grant awards are expected this fall.
- o Legislation has been introduced that would provide a framework to support a national system of youth apprenticeship, in order to move students from school into front line jobs requiring high skills. There appears to be broad Congressional support for the Administration's bill, which would authorize funding of \$50 million.
- o The Department recently awarded funding to six leading states to support the planning and implementation of youth apprenticeship programs in those states.
- o The U.S. Department of Labor has been working with a private group, the Council of Chief State School Officers, composed of the leading educational officials in each state, to give additional awards for school-to-work projects. This is additional evidence of the expansion of interest in this area, following the President's initiatives.

"LIFT" Awards

- o The Department of Labor is planning to make additional Labor Investing for Tomorrow ("LIFT") awards for the fall of 1992.
- o These awards are given, as before, to business and public organizations that have created model programs to upgrade work force skills.

- o With the interest in the LIFT awards, the National Advisory Commission on Work-Based Learning has recommended expansion in the fall of 1993 of the focus of the LIFT awards. The Commission recommends that they be made into broadly based human resource development awards, based upon the principles of the Malcolm Baldrige Award (the President's National Quality Awards).

National Advisory Commission on Work-Based Learning

- o In carrying out its mission to advise the Secretary of Labor in increasing U.S. worker skill levels, the National Advisory Commission on Work-Based Learning has recommended action steps for DOL to undertake in six areas:
 - developing a national framework of skill standards and certification;
 - integrating human resources development and the introduction of new technology;
 - promoting labor-management cooperative efforts to implement work-based learning;
 - developing new accounting models that promote investment in people;
 - managing cultural diversity as a strategic asset;
 - developing a national award for quality human resource management systems. (See LIFT awards above.)

Work-Based Learning

- o As a major initiative, the Department of Labor has proposed a process for developing a voluntary system of industry-led skill standards and certifications of individual skill achievement. DOL has published an issues paper discussing the key issues, conducted public hearings in ten cities during the spring, and will now prepare to fund several demonstration projects in key industry sectors.
- o The standards will be determined by labor and management from key employers in several industries, and will involve required skills both for entry and career-ladder positions.
- o The Work-Based Learning demonstration programs described in previous SII reports have been successful. Because of their success, many elements of the

original programs are still operating. In particular, the process developed through the grants has attracted widespread attention in the semiconductor industry, and in the health care and aerospace industries. The Department of Labor and other partners have been called upon to give presentations in a number of industry forums.

- o The U.S. Department of Labor previously sponsored a symposium, together with the Japanese Ministry of Labor, on work force quality, with the aim of exchanging information on successful workforce practices. The symposium reports were published in the fall of 1991 and are being widely disseminated. The Department continues to maintain the channels of communication opened by the symposium.
- o The Department has awarded two grants to study best practices in firms in the process of becoming "high performance work organizations." Such organizations have a structure which empowers front line workers to achieve very high quality operations standards and as a consequence are likely to be the leading edge organizations of the future. The grantees will study the process of change and compile examples of such firms in transition.

Vocational Education

- o The FY 1993 budget requests \$1.2 billion for vocational education programs, which includes \$991 million for grants to states to begin a major overhaul of vocational education programs, and \$100 million for "Tech-Prep" vocational education programs which integrate secondary and post-secondary education for students entering technical occupations.
- o The Federal Committee on Apprenticeship, re-constituted last year, has continued to meet with the purpose of providing aid to existing apprenticeship programs to make them responsive to the long-term needs of the work force.

Other Federal Commitments for Worker Training

- o In July 1991, the President signed the National Literacy Act of 1991, signaling renewed Federal priority for programs and policies to raise literacy levels. (See VII A above, for a description of the Act.) The Act authorizes a new program of technical assistance for middle-and small-sized firms to assist in upgrading worker skills.
- o The budget includes \$1 billion to finance the Federal share of the Job Opportunities and Basic Skills program (JOBS). This program is targeted to parents receiving assistance under Federal support programs to obtain education, training, and employment services.

- o Included in the JOBS program this year are two new demonstrations, to provide support to for-profit companies to train and place welfare clients in jobs, and to provide lump-sum payments to recipients who work their way off the Federal support programs.
- o The Departments of Health and Human Services and Education plan to initiate a five-year comprehensive process/impact evaluation of the program beginning in 1992.

Job Training Partnership Act

- o Legislation was submitted in May 1991 to amend the Job Training Partnership Act (JTPA), enhancing the states' responsibility to monitor administrative practices and controls. Bills incorporating the features of the legislation are making their way through the Congress; the legislation would take effect in the program year that begins July 1, 1993.
- o For 1993, amendments are proposed to JTPA to replace the existing block grant and summer youth programs with separate programs serving adults and youth. The new programs will be targeted on those with particularly severe barriers to employment and will provide more intensive and comprehensive services.
- o The amendments proposed for 1993 JTPA also would authorize a Youth Opportunities Unlimited demonstration program to provide comprehensive services to youth living in high poverty areas.

New Commitments

Education

The Administration is committed to establishing voluntary world class standards in support of the national goal that "...American students will leave grades four, eight, and twelve having demonstrated competency in challenging subject matter including English, mathematics, science, history and geography;" and to making available assessments/tests that will measure student progress toward the standards.

- o The National Council on Education Standards and Testing was created in response to interest in national standards and assessments by the Nation's Governors, the Administration and Congress. In the authorizing legislation (Public Law 102-62), Congress charged the Council to:
 - advise on the desirability and feasibility of national standards and tests, and

- recommend long-term policies, structures, and mechanisms for setting voluntary education standards and planning appropriate systems of tests.
- o On January 24, 1992 the Council recommended that the nation should set national education standards and develop a voluntary system of assessments or tests to measure student progress toward the standards.
- o The President's budget includes \$25 million to help states redesign their curriculum and assessment systems and to implement the system reform strategies that will help students and schools meet the standards.
- o Under the U.S. system of government, education is primarily a state and local responsibility. The Administration therefore supports the development of a national system of assessments which encourages the developmental use of multiple tests by states and localities.
- o In accord with the recommendations of the National Council on Education Standards and Testing, the various disciplines are working to establish standards for the consideration of the states. The mathematics group, for example, has already worked out its proposals, and science and geography are expected to have their proposals shortly. Next, these model standards will be promptly circulated to every state with full documentation to encourage their early adaptation.

Enhancement of Exchange and Labor Cooperation

The Administration would like to explore with the GOJ mechanisms for undertaking a range of joint activities related to enhancing cooperation between the two governments in the areas of labor cooperation and productivity improvements. This effort can build on our successful exchange of tripartite delegations in 1990, and further the sharing of views and new ideas between our two countries.

- o The DOL is assisting the Department of Commerce (DOC) in developing and implementing a Manufacturing Technology Initiative (MTI) between MITI and DOC.
- o The Vice President and the Minister of International Trade and Industry announced the intention of the two governments to begin this program for production engineers and foremen during the Vice President's recent visit to Japan.

- o DOL would also welcome discussion on exchanging information on "best practices in the service sector" and how to improve productivity in service industries. Given the growing importance of this sector, both sides would have much to gain from such a dialogue.

Study on Labor Management Policies of Private Companies (Review of Layoff Practices)

The USG recognizes the desirability of having companies take measures to ease the impact of layoffs; although policies and practices regarding layoffs are essentially a private matter between the company and its employees or unions.

The USG in 1988 enacted two pieces of legislation that give state and local governments the opportunity to help workers seek new careers before their jobs are terminated. These premises underlie the legislation:

- o Prompt state intervention is an important factor in helping workers cope with job loss.
- o Adjustment services are of more benefit if they are available to workers before dislocation, rather than after.
- o Worker adjustment assistance is best handled by those directly affected by the workforce reduction.

The Worker Adjustment and Retraining Notification Act (WARN) requires certain employers to give at least 60 days advance notice of a closing or mass layoff to affected employees, and certain other government organizations.

The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) encourages the states to establish and coordinate a worker adjustment system that will provide dislocated workers with a rapid response to their employment and retraining needs.

Both WARN and EDWAA are administered by state agencies and funded by the U.S. Department of Labor.

The USG recommends the use of a labor-management adjustment committee (LMAC) to oversee and manage employment and retraining services in the affected plant. To aid in the establishment of those committees, the USDOL has issued a reference manual titled "Establishing Labor-Management Adjustment Committees". In addition, the USDOL has compiled a directory of companies where labor and management have formed joint committees to deal with layoffs.

The USDOL has appointed a National Advisory Commission on Work-Based Learning comprised of national union, management, government and academic leaders to address a variety of workplace issues. Currently the Commission is in the process of preparing action steps for the USDOL to take. The particular problems of job change, layoffs, and retraining will be addressed by this Commission as it looks at the totality of work organizations and the roles of labor and management in a changing work environment. Another commission, the new Advisory Council on Unemployment Compensation, will address the question of layoff assistance. This group will begin in FY 1993.

The Commission on Work-based Learning welcomes, from any source, input during its decision making process. It convenes public periodic hearings in various parts of the U.S. to gather data, comments, views, and opinions from interested persons and organizations. Input from foreign organizations would be welcome at any opportunity, including those hearings.

Over the last several years, DOL has engaged in many studies of best practice companies and developed technical assistance materials for use by firms wishing to emulate best practice. These products include:

- o Plant Closing Checklist: A Guide to Best Practice--USDOL, 1990
- o Establishing Labor-Management Adjustment Committees--USDOL, 1991
- o Responding to Layoffs: A Labor-Management Adjustment Committee Can Help--USDOL, 1991
- o Establishing Labor Management Adjustment Committees--USDOL, 1991

These materials were provided to the GOJ.

Job Training 2000

The Administration forwarded detailed legislation to Congress on April 14 to implement Job Training 2000. It is a major commitment to initiate comprehensive reform of the nation's Federal job-training system in order to better prepare workers for future marketplace demands. The Administration forwarded detailed legislation to Congress on April 14 to implement Job Training 2000. It is a major commitment to initiate comprehensive reform of the nation's Federal job-training system in order to better prepare workers for future marketplace demands. The USG will seek the early enactment of the Job Training 2000 Act.

- o The Job Training 2000 reform program uses market-based approaches to improve the existing job training system.
- o The program will transform a relatively disjointed set of programs, administered by seven federal agencies, into a comprehensive vocational training system responsive to the needs of individuals, businesses and the national economy.
- o The initiative targets primarily three groups: new labor force entrants who need basic education and job training; economically disadvantaged workers and people who currently rely on public assistance; and unemployed workers seeking jobs and placement assistance.
- o The initiative would be coordinated at the community level through the Private Industry Councils established under the Job Training Partnership Act (JTPA). The Council system would be modified and expanded, receiving approved funds to administer or coordinate vocational training services for about \$12 billion from Federal programs. While certain programs would retain their existing local program structure, certification and approval would be coordinated through the Councils.
- o Job Training 2000 calls for states to use private and non-profit firms to provide basic training and job placement for welfare recipients.
- o Under the program, the Councils would run "one-stop shopping" skill centers which would function as the primary points of entry into Federally funded job-training and vocational education programs, providing skills assessment and testing, referral services and placement assistance. In areas where there are insufficient training opportunities, the Councils would be able to contract for needed services.
- o The Councils would receive \$2.2 billion to finance training vouchers for on-the-job training, classroom training and support services, to be targeted to low-income and disadvantaged youth and adults. Very disadvantaged youth would be eligible for the Job Corps, offering residential education and training services.

Training Assistance for Small Firms

TEAMS, or Technical and Education Assistance to Mid- and Small-Sized Firms, was announced by Secretary of Labor Lynn Martin in May 1992. TEAMS represents an Administration commitment to work cooperatively with organizations that provide training services to small companies.

- o TEAMS will work with community colleges, manufacturing technology centers, industry associations, and similar organizations to enhance the capacity of these organizations to provide services in four areas:
 - workforce literacy;
 - technical training;
 - work restructuring; and
 - labor management relations.

- o Many components of TEAMS are already underway. These include:
 - funding studies and surveys of the current experience and training needs of small businesses;
 - conducting focus groups and training sessions for corporate CEOs offered in conjunction with the National Association of Manufacturers;
 - funding the Commerce Department's manufacturing technology centers--which provide assistance with new technology--to explore ways to provide human resource development assistance to their clients as well.

- o Over the next year, we anticipate additional activity in the following new areas:
 - Establishing a National Workforce Assistance Collaborative to develop training materials for small firms with \$1.3 million in appropriated funds;
 - Enhancing the capacity of community colleges to meet the needs of small firms in the four areas noted above by training college trainers and developing model curricula.